

**COMPREHENSIVE
ANNUAL FINANCIAL REPORT**

**FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2005**

The City of Fort Smith, Arkansas

CITY OF FORT SMITH, ARKANSAS

Comprehensive Annual Financial Report
Year Ended December 31, 2005

Prepared By the

CITY OF FORT SMITH, ARKANSAS
FINANCE DEPARTMENT

CITY BOARD OF DIRECTORS

C. Ray Baker, Mayor

Ken Pyle
Velvet Medlock
Rick Parrish
Bill Maddox
Gary Campbell
Ben Shipley
Cole Goodman, M.D.

ACTING CITY ADMINISTRATORS

Dean Kruithof
Ray Gosack

DIRECTOR OF FINANCE

Kara Bushkuhl

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DEPARTMENT OF FINANCE

Kara Bushkuhl, CPFO

Director of Finance
March 24, 2006

The Honorable Mayor and Board of Directors
City of Fort Smith, Arkansas

Introduction

The Comprehensive Annual Financial Report (CAFR) of the City of Fort Smith, Arkansas (the City) for the fiscal year ended December 31, 2005, is hereby submitted. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the City. To the best of our knowledge and belief, the enclosed data are accurate in all material respects and are reported in a manner designed to present fairly the financial position and results of operations of the City as measured by the financial activity of its various funds. We believe that all disclosures necessary to enable the reader to gain an understanding of the City's financial affairs have been included. To provide a reasonable basis for making these representations, management of the City has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft or misuse and to compile sufficient reliable information for the preparation of the CAFR in conformity with generally accepted accounting principles in the United State of America (GAAP). Because the cost of internal controls should not outweigh their benefits, the City's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements are free from material misstatement.

The Report

The CAFR is presented in four primary sections: Introductory, Financial, Statistical and Single Audit. The introductory section includes this transmittal letter, plan of organization and a list of elected and appointed officials. The financial section includes management's discussion and analysis (MD&A), the basic financial statements, combining and individual fund financial statements and schedules, as well as the independent accountants' report on the basic financial statements and supplementary information. The MD&A is a narrative introduction, overview and analysis to accompany the basic financial statements. This letter of transmittal is designed to complement the MD&A and it should be read in conjunction with the MD&A. The statistical section includes financial and demographic information, usually presented on a multi-year basis, that is relevant to a financial statement reader.

In accordance with state law, the CAFR is presented in conformity with GAAP and audited in accordance with auditing standards generally accepted in the United States of America.

The City of Fort Smith's basic financial statements have been audited by BKD, LLP. The goal of the independent audit was to provide reasonable assurance that the financial statements for the fiscal year ended December 31, 2005 are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The auditor's unqualified opinion is presented as the first component of the financial section of this report.

The independent audit of the City's financial statement was part of a broader, federally mandated "Single Audit" designed to meet the special needs of federal grantor agencies. The standards governing single audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the City's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal and state awards. These reports are included in the single audit section of the CAFR.

City Profile

Fort Smith is located in western Arkansas on the border of Oklahoma and is the second largest city in Arkansas. The City was incorporated in 1842 and is the county seat for Sebastian County. The City encompasses 69.2 square miles and has a 2000 census population of 80,268. The City is empowered by state statutes to levy real and personal property taxes within its limits and extend the corporate limit by annexation, which occurs periodically when deemed appropriate by the Board of Directors.

Since 1967, the City has operated as a City Administrator form of government. The Mayor and the Board of Directors are elected on staggered terms every four years. The Mayor and three directors are elected at large and the remaining four directors are elected in representative wards of the City. The Board of Directors is charged with setting policy and enacting laws for the City. The City Administrator is appointed by the Board of Directors and serves as the chief executive officer for the city government.

The City provides a full range of services including public safety, construction and maintenance of streets and other infrastructure, parks and recreational activities, water and sewer services, solid waste collection and disposal, public transportation, and administrative services. The City is financially accountable for the legally separate entities of the Advertising and Promotion Commission, Public Library, Parking Authority and the Airport Commission. These entities are included in the financial statements as discretely presented component units. Additional information about these component units may be found in Note 1 (a) in the notes to the basic financial statements.

The Board of Directors adopts an annual budget which serves as Fort Smith's financial planning document. Control over spending and allocation of resources are a main focus of the budget. The annual budget process begins in June of each year and is usually adopted each December. Appropriation requests by fund, division and department are submitted to the City Administrator and resources are allocated based on priorities established by the Board of Directors. The legal level of budgetary control is the departmental level. For example, the Police Department is reported as a Public Safety (division) expenditure in the General Fund budget to actual schedule located in the required supplementary information in the financial section. The City Administrator is authorized to transfer appropriated amounts within individual funds. However, additional appropriations during the year require authorization by the Board of Directors.

Factors Affecting Financial Condition

The information presented in the financial statements may be better understood when considered from a broader perspective of the environment within which Fort Smith's municipal government operates.

Local Economy

The City continues to enjoy economic prosperity in all sectors of its economy. The Fort Smith Regional Chamber of Commerce recently adopted a new economic development and marketing strategy for the region. The goal of the plan is to promote the City's quality of place to attract educated and talented residents to the region. This labor pool will then attract new, highly-desirable jobs to the area.

Wal-Mart is planning to construct its third Supercenter in the City beginning next year. This store will be the fifth Supercenter in the immediate area. Target has selected a site for its first store in the Fort Smith area. The Target store will be part of a 400,000 square foot shopping center that is expected to include Belk Department Store and Marshall's. Academy Sporting Goods is constructing a new retail store near the proposed Target shopping center. John Q. Hammons Hotels is constructing a Marriott Courtyard next to the Fort Smith Convention Center. The new hotel, expected to open next summer will expand the marketing opportunity for attracting larger conventions to the City.

Graphic Packaging, a manufacturer of paperboard for the food and beverage industry, recently opened its new state-of-the-art manufacturing plant at Chaffee Crossing in the City. The plant employs 330 people.

The 188th Fighter Wing of the Arkansas Air National Guard recently received a new flying mission through the Base Realignment and Closure Commission. The unit will be trading in 14 obsolete F-16 fighter aircraft for 18 A-10 attack aircraft. This change preserves 1,000 full and part time jobs in the region. Sparks Regional Medical Center is planning for a major expansion to its health care campus near downtown Fort Smith. Two large-scale residential subdivisions in and near the City are under development with lots being absorbed faster than expected. The recent settlement with South Sebastian Water is spurring further residential development in the City's southern edges.

The sales tax revenue from the City's local sales tax increased 5.5% between 2004 and 2005 and the shared county sales tax increased 6.4% between years. This trend is expected to continue for the near future.

Long-term Financial Planning- In 1985, the City began collecting a one percent (1%) local sales and use tax to fund its neighborhood and major street improvements. This sales tax is authorized through 2015.

The City also levies an additional one percent (1%) local sales and use tax which is pledged to redeem bonds issued for large construction projects. The Lake Fort Smith water supply expansion project is funded in part with sales tax. This has proven to be a very effective way to fund projects and the City saves on interest charges because the sales tax bonds have mandatory redemption requirements.

The City's comprehensive plan includes development and planning in and around Fort Smith. Local developers of planned residential areas outside the City limits have requested City services which may provide future annexation which would increase the City's tax base.

Cash Management Policies and Practices- Cash temporarily idle during the year was invested in demand deposits, certificates of deposit, and obligations of the U.S. Treasury in accordance with policies established by the Board of Directors. The objective of the City's investment policy is to minimize credit and market risks while maintaining a competitive yield on its portfolio. The City's average yield on investments was 4.04% for 2005 and maturities average 230 days.

Risk Management- The City manages self-insurance programs for providing workers' compensation and health and other medical benefits to employees, retirees, and their dependents and beneficiaries. Employer and employee contributions to the fund were increased during 2005 to cover increased costs of providing medical benefits. Several cost containment efforts were implemented for 2005 to help reduce the cost of providing medical benefits. Safety training continues to be an important aspect for controlling workers' compensation claims.

Other Information

Awards- The Government Finance Officers Association of the United States of America and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Fort Smith for its comprehensive annual financial report for the fiscal year ended December 31, 2004. The Certificate of Achievement is the highest form of recognition for excellence in local government financial reporting. This was the twentieth consecutive year that the City has received this prestigious award. In order to be awarded a Certificate of Achievement, the City published an easily readable and efficiently organized comprehensive annual financial report. This report satisfied both accounting principles generally accepted in the United States of America and applicable legal requirements.

A Certificate of Achievement is valid for one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

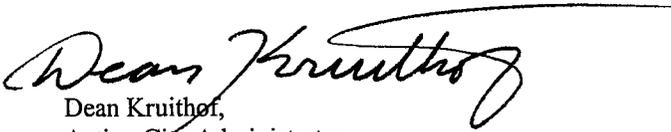
In addition, the City also received the GFOA's Award for Distinguished Budget Presentation for its annual appropriated budget dated January 1, 2006. This was the eighteenth consecutive year that the City has received this award. In order to qualify for the Distinguished Budget Presentation Award, the City's budget document was judged to be proficient in several categories including policy documentation, finance, planning, and organization.

Acknowledgments- The preparation of the comprehensive annual financial report on a timely basis was made possible by the dedicated service of the entire staff of the Finance Department. Each member of the department has our sincere appreciation for the contributions made in the preparation of this report.

We also acknowledge the thorough, professional, and timely manner in which the annual audit was conducted by BKD, LLP.

In closing, we acknowledge the contributions of the Mayor, Board of Directors, and the Audit Advisory Committee members who have consistently supported the City's goal of excellence in all aspects of financial management. Their encouragement and support is greatly appreciated.

Respectfully submitted,



Dean Kruithof,
Acting City Administrator



Ray Gosack
Acting City Administrator



Kara Bushkuhl
Director of Finance

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Fort Smith,
Arkansas

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
December 31, 2004

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Cara E. Perry

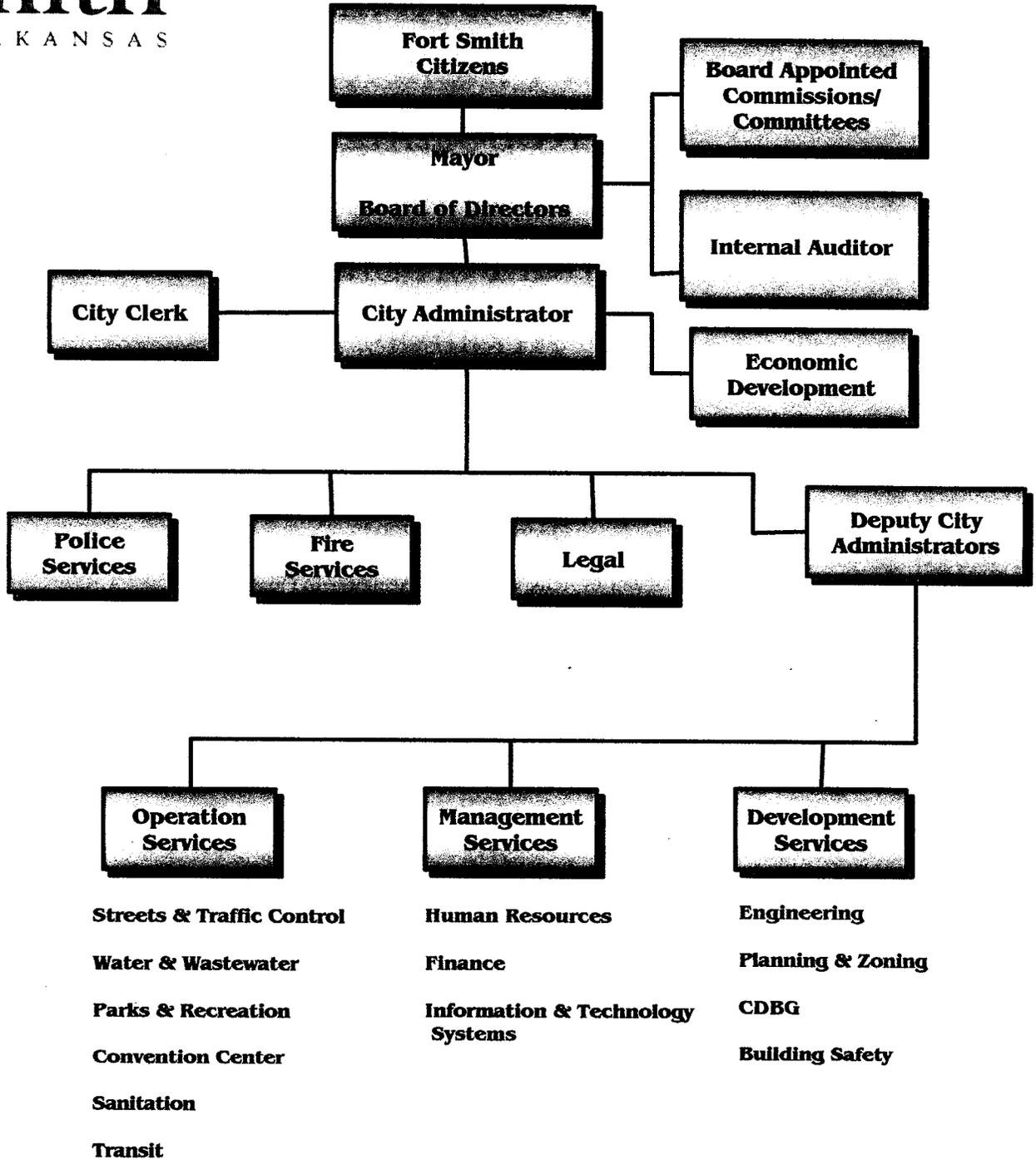
President

Jeffrey R. Emery

Executive Director



Plan of Organization



**City of Fort Smith, Arkansas
List of Elected and Appointed Officials
December 31, 2005**

Elected Officials

Mayor	C. Ray Baker
Director-Ward 1	Ken Pyle
Director-Ward 2	Velvet Medlock
Director- Ward 3	Rick Parrish
Director-Ward 4	Bill Maddox
Director at Large/Vice Mayor	Gary Campbell
Director at Large	Ben Shipley
Director at Large	Cole Goodman, M.D.
District Court Judge	David Saxon
District Court Judge	Ben Beland

Appointed Officials

City Administrator	Vacant
Acting City Administrator	Dean Kruithof
Acting City Administrator	Ray Gosack
Advertising and Promotion	Claude Legris
Airport	Kent Penney
City Clerk	Cindy Remler
Construction and Development/Planning	Wally Bailey
Convention Center	Frankie Hamilton
District Court	Rachel Sims
Engineering	Stan Snodgrass
Finance	Kara Bushkuhl
Fire	Jerry Tomlin
Human Resources	Richard Jones
Information and Technology	Al Whitson
Library	Jennifer Goodson
Parks and Recreation	Mike Alsup
Police	Randy Reed
Sanitation	T. Baridi Nkokheli
Streets and Traffic Control	Bob Wright
Transit	Ken Savage
Utilities	Steve Parke

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Independent Accountants' Report on Financial Statements and Supplementary Information

The Honorable Mayor and Board of Directors
City of Fort Smith, Arkansas
Fort Smith, Arkansas

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Fort Smith, Arkansas as of and for the year ended December 31, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Public Library and Airport Commission, which statements reflect total assets and revenues of \$41,373,862 and \$5,988,637, respectively, and represent 94% and 84% of the aggregate discretely presented component units' total assets and revenues at December 31, 2005 and for the year then ended, respectively. The financial statements of these entities were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for such entities, is based solely on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Fort Smith as of December 31, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in *Note 12*, in 2005 the City changed its method of accounting for certain infrastructure capital assets by retroactively restating prior years' financial statements.

The Honorable Mayor and Board of Directors
City of Fort Smith, Arkansas
Page 2

In accordance with *Government Auditing Standards*, we have also issued our report dated March 24, 2006, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The accompanying management's discussion and analysis and budgetary and pension information as listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying supplementary information, including the schedule of expenditures of federal awards required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The accompanying information in the statistical section as listed in the table of contents has not been subjected to the procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

BKD, LLP

March 24, 2006



DEPARTMENT OF FINANCE

Kara Bushkuhl, CPFO
Director of Finance

Management's Discussion and Analysis

The following discussion and analysis of the City of Fort Smith's financial performance provides a narrative overview and analysis of its financial activities for the year ended December 31, 2005. We encourage readers to consider the information presented here in conjunction with additional information we have furnished in our letter of transmittal, which can be found on pages 1-4 of this report.

Financial Highlights

- Primary Government total assets exceeded total liabilities at the close of 2005 by \$526,305,283 (net assets). Of this amount, \$53,549,281 is considered unrestricted net assets and may be used to meet the City's ongoing obligations to its citizens and creditors in accordance with the City's fund designations and financial policies. The City's governmental activities have unrestricted net assets of \$66,055,588. The City's business-type activities have an unrestricted net deficit of \$12,506,307.
- The City's total net assets increased by \$40,472,451 in 2005. Net assets of the governmental activities increased by \$15,947,567 in 2005 which was a 5% increase over 2004 ending net assets. Net assets of the business-type activities increased by \$24,524,884 in 2005 which was a 14.3% increase over 2004 ending net assets.
- As of the close of 2005, the City's governmental funds reported combined ending fund balances of \$62,080,748 which was an increase of \$9,328,525 over the prior year. The unreserved portion of the fund balances is \$24,289,590 which represents 39.1% of the total and is available for spending at the Board's discretion.
- At the end of 2005, the unreserved fund balance for the General Fund was \$7,426,514 or 21.4% of total General Fund expenditures. There was an increase of \$1,816,887 in total General Fund balance between years.
- The City's total bonded indebtedness decreased by \$13,235,000 during the current year. This decrease was net of the \$17.605 million issue for the Series 2005A Water and Sewer Refunding Revenue Bonds and the \$7.33 million issue for the Series 2005B Water and Sewer Revenue Bonds. The key factors in the decrease were the annual debt service requirements for long-term bonds and the call of \$10,130,000 sales and use tax bonds under mandatory redemption.
- The City's governmental component units reported net assets of \$1,922,429 at December 31, 2005 which was an increase of \$243,631 from 2004.
- The City's business-type component units reported net assets of \$35,897,704 at December 31, 2005 which was a \$660,704 decrease from 2004.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements which are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the basic financial statements. This report also contains required and other supplementary information in addition to the basic financial statements.

Government-Wide Financial Statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to private-sector business.

The *statement of net assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the cash flows. Thus, revenues and expenses reported in this statement for some items will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees or charges (business-type activities). The governmental activities of the City include general government, public safety, public works, and community services. The business-type activities of the City includes the water and sewer system and the solid waste disposal system.

The government-wide financial statements include not only the City itself (known as the primary government), but also the following legally separate entities for which the City is financially accountable:

- Parking Authority
- Fort Smith Public Library
- Advertising and Promotion Commission
- Airport Commission

Financial information for these *component units* are reported separately from the financial information presented for the primary government itself.

The government-wide financial statements can be found on pages 23-25 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on the *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements. Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City maintains 11 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Street Maintenance Fund and the Sales Tax Fund, which are considered to be major funds. Data from the other eight (8) governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The basic governmental fund financial statements can be found on pages 26-29 of this report.

Proprietary funds. The City maintains two different types of proprietary funds. *Enterprise Funds* are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses Enterprise Funds to account for its water and sewer system and its solid waste system. *Internal Service Funds* are an accounting device used to accumulate and allocate costs internally among the City's various functions for fuel and duplicating services, medical, dental and life insurance benefits, and workers' compensation claims. The services provided by the internal service funds predominantly benefit the governmental rather than the business-type functions. They have been included within the *governmental activities* in the government-wide financial statements exclusive of an allocation of services to business-type activities. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail.

The proprietary fund financial statements provide separate information for the Water and Sewer Fund and the Sanitation Fund, both of which are considered to be major funds of the City. The Working Capital, Employee Insurance and Workers' Compensation Funds are the City's internal service funds and are reported in a single aggregated presentation.

The basic proprietary fund financial statements can be found on pages 30-33 of this report.

Notes to the basic financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the basic financial statements can be found on pages 35-77 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning the City's General Fund budget, the City's Street Maintenance Fund budget and an analysis of funding progress for the City's fire and police pension plans. The City adopts an annual appropriation budget for its General Fund and its Street Maintenance Fund. Budgetary comparison schedules have been provided for the General Fund and the Street Maintenance Fund to demonstrate compliance with the annual budgets. *Required supplementary information* can be found on pages 79-82 of this report.

The combining statements referred to earlier in connection with nonmajor governmental funds and internal service funds are presented immediately following the required supplementary information. Combining statements and schedules can be found on pages 83-104 of this report.

Government-Wide Financial Analysis

**City of Fort Smith
Net Assets**

	Governmental Activities		Business-Type Activities		Totals	
	2005	2004 (Restated)	2005	2004	2005	2004 (Restated)
Current and other assets	\$ 77,053,906	\$ 68,780,472	\$ 80,788,635	\$ 105,260,968	\$ 157,842,541	\$ 174,041,440
Capital assets	261,926,275	254,719,750	326,355,745	287,995,761	588,282,020	542,715,511
<i>Total assets</i>	<u>338,980,181</u>	<u>323,500,222</u>	<u>407,144,380</u>	<u>393,256,729</u>	<u>746,124,561</u>	<u>716,756,951</u>
Long-term liabilities	2,674,222	2,154,496	177,467,591	196,670,595	180,141,813	198,825,091
Other liabilities	5,778,241	6,765,575	33,899,224	25,333,453	39,677,465	32,099,028
<i>Total liabilities</i>	<u>8,452,463</u>	<u>8,920,071</u>	<u>211,366,815</u>	<u>222,004,048</u>	<u>219,819,278</u>	<u>230,924,119</u>
Net Assets:						
Invested in capital assets, net of related debt	260,483,758	254,719,750	181,439,396	152,618,444	441,923,154	407,338,194
Restricted	3,988,372	4,470,232	26,844,476	24,005,631	30,832,848	28,475,863
Unrestricted (deficit)	66,055,588	55,390,169	(12,506,307)	(5,371,394)	53,549,281	50,018,775
<i>Total Net assets</i>	<u>\$ 330,527,718</u>	<u>\$ 314,580,151</u>	<u>\$ 195,777,565</u>	<u>\$ 171,252,681</u>	<u>\$ 526,305,283</u>	<u>\$ 485,832,832</u>

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The City's assets exceeded liabilities by \$526,305,283 at the close of 2005.

The largest portion of the City's net assets (84%) reflects its investment in capital assets (e.g. land, buildings, improvements other than buildings, machinery and equipment, and infrastructure), plus unspent bond proceeds, less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; therefore, these assets are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay debt must be provided from other sources, since capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net assets (5.9 %) represents resources that are subject to restrictions as to how they may be used. The remaining balance of unrestricted net assets (\$53,549,281) may be used to meet the government's on-going obligations to citizens and creditors.

At the end of the current fiscal year, the City is able to report positive balances in net assets for the government as a whole and for its separate governmental activities as was the case in the prior year. However, the business-type activities reported deficit net assets at the end of 2005 as well as 2004.

There was an increase of \$2,838,845 in restricted net assets reported in connection with the City's business-type activities. This increase resulted from the bond retirement reserves required for the two 2005 Water and Sewer revenue bond issues.

The City's net assets increased by \$40,472,451 during 2005. Total revenues increased by 3.3% between years. Revenue generated by fees and charges increased by 4.4% due primarily to rate increases. Sales tax revenue on a government-wide basis increased by 5.8%.

**City of Fort Smith
Changes in Net Assets**

	Governmental Activities		Business-type Activities		Total	
	2005	2004 (Restated)	2005	2004	2005	2004 (Restated)
Revenues						
<i>Program revenues</i>						
Fees, fines, and charges for services	\$ 4,554,950	\$ 4,680,538	\$ 41,531,377	\$ 39,470,445	\$ 46,086,327	\$ 44,150,983
Operating grants and contributions	10,513,626	9,837,419	-	343,786	10,513,626	10,181,205
Capital grants and contributions	2,106,374	6,600,991	1,376,054	980,093	3,482,428	7,581,084
	<u>17,174,950</u>	<u>21,118,948</u>	<u>42,907,431</u>	<u>40,794,324</u>	<u>60,082,381</u>	<u>61,913,272</u>
<i>General revenues</i>						
Property taxes	8,932,234	8,812,154	-	-	8,932,234	8,812,154
Sales taxes	31,236,465	30,940,060	17,372,140	15,024,256	48,608,605	45,964,316
Utility franchise fees	6,833,462	5,986,546	-	-	6,833,462	5,986,546
Grants and contributions not restricted to specific programs	1,277,089	1,280,450	-	-	1,277,089	1,280,450
Unrestricted investment earnings	1,489,322	740,108	2,475,149	1,417,046	3,964,471	2,157,154
Gain on sale of capital assets	852	24,462	-	-	852	24,462
Other	768,612	14,907	317,700	212,889	1,086,312	227,796
	<u>67,712,986</u>	<u>68,917,635</u>	<u>63,072,420</u>	<u>57,448,515</u>	<u>130,785,406</u>	<u>126,366,150</u>
Total revenues						
Expenses:						
General government	7,204,031	6,291,295	-	-	7,204,031	6,291,295
Public safety	25,007,200	22,814,182	-	-	25,007,200	22,814,182
Public works	8,624,464	12,061,258	-	-	8,624,464	12,061,258
Community services	10,723,724	10,319,043	-	-	10,723,724	10,319,043
Interest on long-term debt	-	128,042	-	-	-	128,042
Water and sewer	-	-	29,678,171	29,270,855	29,678,171	29,270,855
Sanitation	-	-	9,075,365	9,300,590	9,075,365	9,300,590
	<u>51,559,419</u>	<u>51,613,820</u>	<u>38,753,536</u>	<u>38,571,445</u>	<u>90,312,955</u>	<u>90,185,265</u>
Total expenses						
Increase in net assets before transfers	16,153,567	17,303,815	24,318,884	18,877,070	40,472,451	36,180,885
Transfers	(206,000)	(579,200)	206,000	589,294	-	-
Increase in net assets	15,947,567	16,724,615	24,524,884	19,466,364	40,472,451	36,180,885
Net assets- January 1	<u>314,580,151</u>	<u>297,855,536</u>	<u>171,252,681</u>	<u>151,786,317</u>	<u>485,832,832</u>	<u>449,651,947</u>
Net assets- December 31	<u>\$ 330,527,718</u>	<u>\$ 314,580,151</u>	<u>\$ 195,777,565</u>	<u>\$ 171,252,681</u>	<u>\$ 526,305,283</u>	<u>\$ 485,832,832</u>

Governmental Activities. Governmental activities increased the City's net assets by \$15,947,567, thereby accounting for 39.4% of total growth in net assets of the City. Key elements of the increase are as follows:

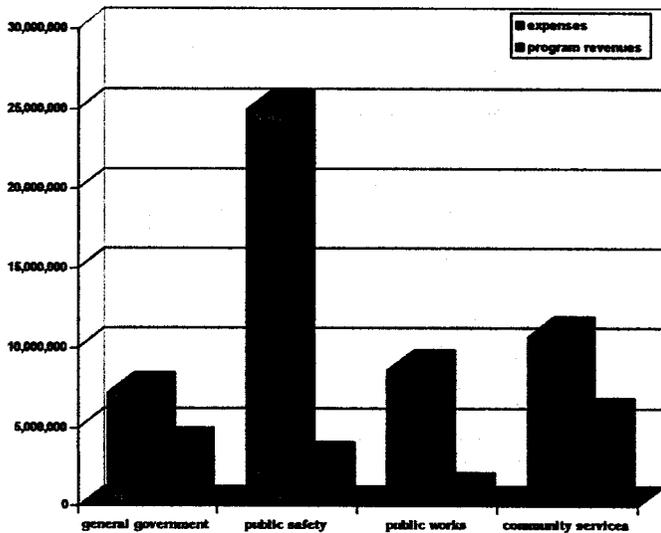
- Net capital asset acquisition exceeded depreciation by \$7,149,047.
- Deferred revenue at the fund level recognized at the government-wide level increased net assets by \$9,442,223.

Sales tax revenue allocated for governmental purposes reflects a 1% increase between years. The City's share of the county sales tax, accounted for in the General Fund, increased 6.4% in 2005 over 2004. However, during 2004, sales tax revenue received for repayment of the 1997 Sales and Use Tax Bonds totaled \$1,441,716. The 1997 Bonds were redeemed during 2004, therefore, there was no receipt of this tax in the governmental funds for 2005.

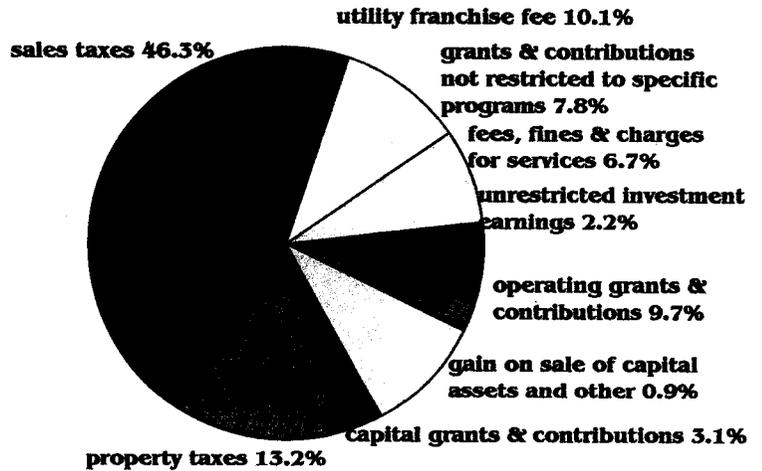
Utility franchise fees increased by \$846,916 or 14.1% during 2005 primarily due to higher electric and natural gas rates.

The reported 2005 expenses remained stable between years.

Expenses and Program Revenues - Governmental Activities



Revenues by Source - Governmental Activities



Business-Type Activities. Business-type activities increased the City's net assets by \$24,524,884 accounting for 60.6% of the total growth in net assets of the City. Key elements of the increase are as follows:

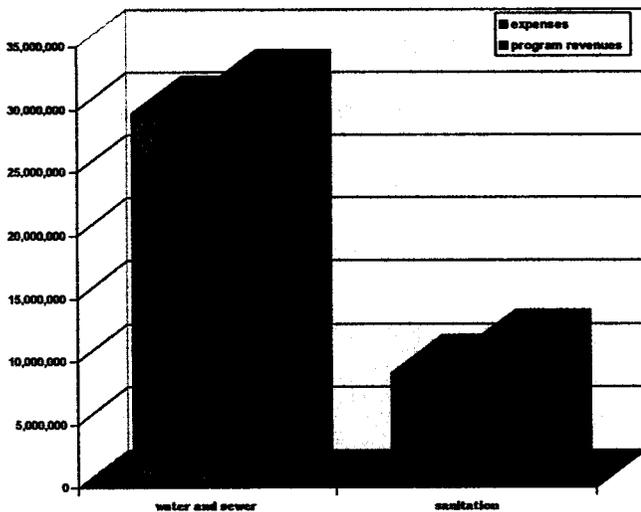
- The water and sewer system contributed \$21,795,026 to total net assets. The operating income for the system totaled \$6,055,505 in 2005. Sales tax revenue for bond retirement and net investment earnings combined for a total of \$19,590,978 less interest expense of \$5,243,292 increased net assets by \$14,347,686.
- The solid waste system added \$2,768,345 to total net assets. The operating income for the system in 2005 totaled \$2,457,782.

Water and sewer system service charges contribute 48.2% of the revenue to business-type activities.

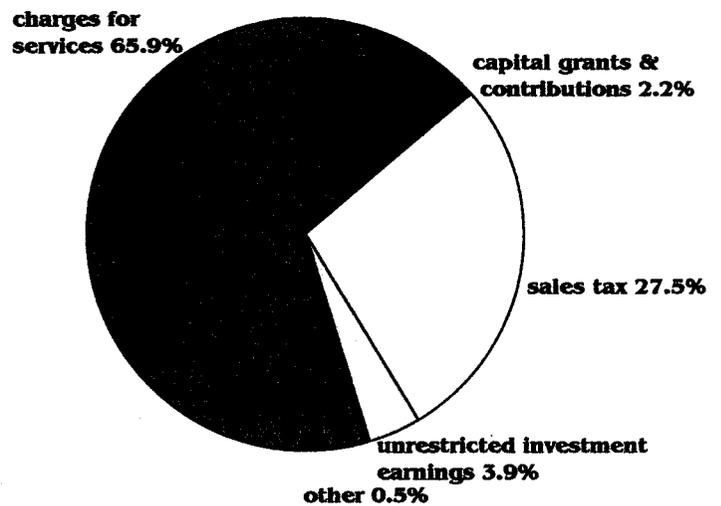
The solid waste system service charges accounted for 17.6% of the revenue to business-type activities.

Current year expenses for the business-type activities were 61.4% of current revenues.

Expenses and Program Revenues - Business-type Activities



Revenues by Source - Business-type Activities



Financial Analysis of the Government's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance related requirements.

Governmental funds. The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balances may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of December 31, 2005, the City's governmental funds reported combined ending fund balances of \$62,080,748, an increase of \$9,328,525 in comparison with the prior year. Of this amount, \$24,289,590 represents *unreserved fund balance*, which is available for spending at the government's discretion. The remainder of fund balances are reserved to indicate that it is not available for new spending because it has already been committed for capital projects and other purposes.

The General Fund is the chief operating fund of the City. At December 31, 2005, unreserved fund balance of the General Fund was \$7,426,514, while the total fund balance was \$10,578,635. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved fund balances and total fund balances to total fund expenditures, including transfers out. Unreserved fund balances represent 21.4% of total General Fund expenditures, including transfers out, while total fund balances represents 30.5% of that same amount. The fund balances of the City's General Fund increased by \$1,816,887 during 2005. Key factors in this increase are as follows:

- The City's share of the one-percent (1%) Sebastian County sales tax generated \$831,953 more revenue for 2005 as compared to 2004.
- Utility franchise fees for 2005 exceeded the 2004 fees by \$846,916. The increase resulted from increased rates for electric service and natural gas.

The Street Maintenance Fund and the Sales Tax Fund, both special revenue funds, are presented as major funds and account for 60% of the total governmental fund balances. Revenues include a one-percent (1%) local sales tax dedicated to streets, bridges and associated drainage, as well as gasoline tax turnback from the state and federal transportation grants. The increase in fund balances for these two funds was \$6,844,695 between years. The increase is attributable to planned projects expected to be completed during 2006.

Proprietary funds. The City's proprietary funds provide the same information found in the government-wide financial statements, but with more detail.

Net assets at the end of the year amounted to \$180,321,543 and \$15,076,419 for the Water and Sewer Fund and the Sanitation Fund, respectively. The increase in net assets was \$21,795,026 for the Water and Sewer Fund and \$2,768,345 for the Sanitation Fund. Other factors concerning the finances of these funds have already been addressed in the discussion of the City's business-type activities.

Budgetary Highlights

General Fund. The final amended General Fund budget had total appropriations of \$39,507,912 (total expenditures plus transfers out) compared to the original budget total of \$39,056,762. The increase in appropriations of \$451,150 is summarized briefly as follows:

- \$288,750 for reimbursement to the Street Maintenance Fund
- \$116,000 for fire facilities improvements
- \$46,400 for economic development efforts

Revenue estimates for the General Fund were increased from an original budget of \$32,501,937 to the final estimate of \$33,524,053. The \$1,022,116 increase was due to an estimated additional \$630,000 in sales taxes and \$246,000 in franchise fees.

Total actual revenue for the General Fund was \$448,871 more than the final budget estimates which was due primarily to even higher franchise fee receipts than anticipated. Total actual expenditures were \$940,632 less than the final appropriated budget of the General Fund.

The budget and actual schedule for the General Fund may be found on page 80 in the required supplementary section of this document.

Capital Assets and Debt Administration

Capital assets. The City's investments in capital assets for governmental and business-type activities as of December 31, 2005 amounts to \$588,282,020, net of accumulated depreciation. This investment in capital assets includes land, buildings, water and sewer systems, improvements other than buildings, machinery and equipment, park and library facilities, streets, and drainage systems. The total increase in the City's investment in capital assets was 7.7%, a 2.8% increase for governmental activities and a 13.3% increase for business-type activities.

City of Fort Smith
Capital Assets, net of accumulated depreciation

	Governmental Activities		Business-Type Activities		Total	
	2005	2004 (Restated)	2005	2004	2005	2004 (Restated)
Land	\$ 21,278,197	\$ 20,822,508	\$ 10,017,848	\$ 9,840,298	\$ 31,296,045	30,662,806
Buildings	60,228,664	61,189,097	884,989	911,701	61,113,653	62,100,798
Water system	-	-	74,062,524	72,893,696	74,062,524	72,893,696
Sewer system	-	-	76,248,802	77,802,618	76,248,802	77,802,618
Improvement other than buildings leasehold improvements	2,632,682	2,623,369	4,815,260	4,888,911	7,447,942	7,512,280
Infrastructure	142,451,241	127,787,206	-	-	142,451,241	127,787,206
Machinery and equipment	8,691,929	8,048,952	8,165,990	7,441,721	16,857,919	15,490,673
Construction in progress	26,643,562	34,248,618	152,089,017	114,129,664	178,732,579	148,378,282
Total	<u>\$ 261,926,275</u>	<u>\$ 254,719,750</u>	<u>\$ 326,355,745</u>	<u>\$ 287,995,761</u>	<u>\$ 588,282,020</u>	<u>\$ 542,715,511</u>

Major capital asset events during 2005 included the following:

- Infrastructure additions were \$18,352,260.
- Additions to construction in progress totaled \$50,013,024 with \$30,958,899 of this amount attributable to the Lake Fort Smith water supply expansion project.
- Depreciation expense totaled \$15,044,035.

Additional information on the City's capital assets can be found in Note 3 on pages 48-54 of this report.

Long-term debt. At December 31, 2005, the City had \$189,790,000 of long-term bonds outstanding, including \$146,795,000 of bonds secured solely by specified revenue sources, (i.e. revenue bonds).

City of Fort Smith's Outstanding Debt
General Obligation and Revenue Bonds

	Business-Type Activities	
	2005	2004
Sales and Use Tax Bonds	\$ 42,995,000	\$ 58,270,000
Revenue Bonds	146,795,000	144,755,000
Total	<u>\$ 189,790,000</u>	<u>\$ 203,025,000</u>

The City's total bonded debt decreased by \$13,235,000 or 7% during 2005. The key factors in this decrease were the principal payments due during 2005 of \$11,665,000 as well as the call prior to maturity of \$10,130,000 in sales and use tax bonds during 2005 and the advance refunding of \$16,375,000 of 1999 Water and Sewer Bonds. The total decrease was offset by an issue of \$17,605,000 in Water and Sewer Refunding Revenue Bonds, Series 2005A and an issue of \$7,330,000 in Water and Sewer Revenue Bonds, Series 2005B.

The City maintains a "AAA" rating from Standard & Poor's on its water and sewer revenue bonds and an "A" rating from Standard & Poor's on its sales and use tax bonds. The solid waste revenue bonds are unrated.

State statutes limit the amount of general obligation bonds a government entity may issue to 25% of its total assessed valuation. The current debt limitation for the City is \$270,023,049. The City has no general obligation debt at December 31, 2005.

In June 2005, the City issued \$17,605,000 water and sewer revenue refunding bonds to advance refund a portion of the 1999 water and sewer refunding and construction revenue bonds. In December 2005, the City issued \$7,330,000 water and sewer revenue bonds to provide funding for extending water service to the southern areas of the City.

Additional information regarding the City's long-term debt can be found in Note 4 on pages 55-66 of this report.

Economic Factors and the Next Year's Budget and Rates

- The year end unemployment rate for the City was 4.2%, which is a decrease from a rate of 5% a year ago. This compares favorably to the state's average unemployment rate of 4.7% and the national average of 5.1%.
- The City's sales tax revenue during the last quarter of 2005 increased by 3.2% which gives us an indication that the economy is continuing in a positive trend.

These factors were considered when the City prepared its 2006 Budget.

One of the major goals of the Board of Directors is to maintain financial stability in the General Fund by adopting a budget with a minimum unreserved fund balance at 15% of operating expenditures. With this in mind, the City's General Fund budget for 2006 was approved at \$40,200,185 and includes an estimated year end fund balance approximating 10.5%.

Request for Information

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and to show accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Director of Finance's Office, Suite 512, 623 Garrison Avenue, Fort Smith, Arkansas 72901.

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City of Fort Smith, Arkansas
Statement of Net Assets
December 31, 2005

	Primary Government			Component Units	
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities
Assets					
Cash	\$ 2,212,231	\$ 462,820	\$ 2,675,051	\$ 546,457	\$ 533,341
Investments	58,749,798	10,697,182	69,446,980	599,564	1,209,228
Receivables, net of allowance for uncollectibles:					
Taxes	12,164,574	-	12,164,574	137,272	-
Sales taxes	2,610,624	-	2,610,624	118,286	-
Accounts	539,544	4,223,394	4,762,938	22,905	35,234
Interest	190,424	249,020	439,444	986	22,221
Grants and other governments	543,354	-	543,354	-	-
Internal balances	(398)	398	-	-	-
Inventory	-	686,495	686,495	5,000	3,366
Prepays and deposits	43,755	3,909	47,664	48,254	50,263
Deferred charges	-	1,614,888	1,614,888	-	160,031
Other assets	-	-	-	-	346,441
Restricted assets:					
Cash	-	19,827	19,827	-	92,914
Investments	-	61,209,689	61,209,689	-	1,114,203
Accounts receivable, net of allowances for uncollectibles	-	33,264	33,264	-	154,167
Sales tax receivable	-	1,448,385	1,448,385	-	-
Interest receivable	-	36,384	36,384	-	13,390
Prepaid items and deposits	-	102,980	102,980	-	-
Capital assets					
Nondepreciable	47,921,759	162,106,866	210,028,625	422,132	7,369,712
Depreciable	214,004,516	164,248,879	378,253,395	70,687	30,991,775
Total Assets	338,980,181	407,144,380	746,124,561	1,971,543	42,096,286
Liabilities					
Accounts payable and accrued expenses	3,371,087	13,165,543	16,536,630	49,114	502,469
Other current liabilities	-	10,914	10,914	-	-
Accrued interest	-	1,850,920	1,850,920	-	63,038
Current portion of long-term debt	-	17,090,000	17,090,000	-	185,000
Deposits	-	1,070,412	1,070,412	-	-
Unearned revenue	835,988	-	835,988	-	-
Noncurrent liabilities:					
Due within one year	1,571,166	711,435	2,282,601	-	101,083
Due in more than one year	2,674,222	177,467,591	180,141,813	-	5,346,992
Total Liabilities	8,452,463	211,366,815	219,819,278	49,114	6,198,582
Net Assets					
Invested in capital assets, net of related debt	258,822,564	181,439,396	440,261,960	492,819	33,359,856
Restricted for:					
Capital projects	-	1,347,766	1,347,766	-	154,167
Debt service	-	21,420,273	21,420,273	-	562,996
Other	3,988,372	4,076,437	8,064,809	-	657,511
Unrestricted (deficit)	67,716,782	(12,506,307)	55,210,475	1,429,610	1,163,174
Total Net Assets	\$ 330,527,718	\$ 195,777,565	\$ 526,305,283	\$ 1,922,429	\$ 35,897,704

See accompanying notes to basic financial statements.

City of Fort Smith, Arkansas
Statement of Activities
For the Year Ended December 31, 2005

Functions/Programs	Net (Expense) Revenue and Changes in Net Assets						
	Expenses	Program Revenues			Primary Government		Component Units
		Fees, Fines, and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Governmental Activities
Primary Government:							
Governmental activities:							
General government	\$ 4,010,257	\$ 943,741	\$ -	\$ -	\$ (3,066,516)	\$	\$ (3,066,516)
Administration	1,496,835	1,934,031	-	376,915	814,111		814,111
Legal	1,696,939	567,890	-	-	(1,129,049)		(1,129,049)
Finance							
Public safety	14,287,848	146,652	54,034	1,425,235	(12,661,927)		(12,661,927)
Police	10,719,352	72,462	120,837	1,031,459	(9,494,594)		(9,494,594)
Fire							
Public works	368,641	-	-	-	(368,641)		(368,641)
Operations	6,644,337	-	868,340	3,967,673	(1,808,324)		(1,808,324)
Streets	1,611,486	-	-	-	(1,611,486)		(1,611,486)
Traffic Control							
Community services	684,859	-	-	49,400	(635,459)		(635,459)
Health and Social Services	4,580,590	204,965	215,452	143,842	(4,016,331)		(4,016,331)
Parks and Recreation	2,046,015	522,898	-	1,801,101	277,984		277,984
Convention Center	2,040,926	162,311	403,896	917,022	(557,697)		(557,697)
Transit	1,371,334	-	443,815	800,979	(126,540)		(126,540)
Housing and Rehabilitation							
Total Governmental Activities	51,559,419	4,554,950	2,106,374	10,513,626	(34,384,469)		(34,384,469)
Business-Type Activities:							
Water and Sewer	29,678,171	30,402,025	1,376,054	-	2,099,908		2,099,908
Sanitation	9,075,365	11,129,352	-	-	2,053,987		2,053,987
Total Business-Type Activities	38,753,536	41,531,377	1,376,054	-	4,153,895		4,153,895
Total Primary Government	\$ 90,312,955	\$ 46,086,327	\$ 3,482,428	\$ 10,513,626	\$ (34,384,469)	\$ 4,153,895	\$ (30,230,574)
Component Units:							
Governmental	\$ 518,762	\$ -	\$ -	\$ 3,779	\$ (514,983)	\$	\$ (514,983)
Advertising & Promotion	2,160,615	106,349	-	325,127	(1,729,139)		(1,729,139)
Public Library	2,679,377	106,349	-	328,906	(2,244,122)		(2,244,122)
Business-Type	277,999	174,628	-	-	(103,371)	\$	\$ (103,371)
Parking Authority	4,556,414	2,116,195	1,074,656	-	(1,365,563)		(1,365,563)
Airport	4,834,413	2,290,823	1,074,656	-	(1,468,934)		(1,468,934)
Sub-total							
Total Component Units	\$ 7,513,790	\$ 2,397,172	\$ 1,074,656	\$ 328,906	\$ (2,244,122)	\$ (2,244,122)	\$ (1,468,934)

City of Fort Smith, Arkansas
Statement of Activities
For the Year Ended December 31, 2005
(Continued)

General revenues:					
Property taxes	8,932,234		8,932,234	981,043	
Sales taxes	31,236,465	17,372,140	48,608,605	831,860	
Utility franchise fees	6,833,462		6,833,462	598,560	
Grants and contributions not restricted to specific programs	1,277,089		1,277,089	14,889	118,690
Unrestricted investment earnings	1,489,322	2,475,149	3,964,471		320,000
Gain on sale of capital assets	852		852		
Payment from City of Fort Smith	768,612	317,700	1,086,312	61,401	369,540
Other	(206,000)	206,000	-		
Transfers					
Total general revenues and transfers	50,332,036	20,370,989	70,703,025	2,487,753	808,230
Change in net assets	15,947,567	24,524,884	40,472,451	243,631	(660,704)
Net assets, beginning of year, as previously reported	278,463,501	171,252,681	449,716,182	1,678,798	36,558,408
Adjustments applicable to the prior years	36,116,650		36,116,650		
Net assets, beginning of year, as restated	314,580,151	171,252,681	485,832,832	1,678,798	36,558,408
Net assets, end of year	330,527,718	195,777,565	526,305,283	1,922,429	35,897,704

See accompanying notes to basic financial statements.

**City of Fort Smith, Arkansas
Balance Sheet
Governmental Funds
December 31, 2005**

	General	Street Maintenance	Sales Tax	Other Governmental Funds	Total Governmental Funds
Assets					
Cash	\$ 374,746	\$ 383,005	\$ 1,000,417	\$ 227,818	\$ 1,985,986
Investments	7,230,902	4,526,267	31,293,804	14,462,350	57,513,323
Receivables, net of allowance for uncollectibles					
Taxes	7,937,194	1,811,735	-	2,415,645	12,164,574
Sales taxes	1,162,239	-	1,448,385	-	2,610,624
Accounts	440,746	8,230	-	67,181	516,157
Accrued interest	22,532	15,351	101,404	46,754	186,041
Due from other funds	18,062	-	-	-	18,062
Due from other governments	412,060	-	-	131,294	543,354
Prepaid items	27,791	-	-	-	27,791
Deposits	8,159	-	7,805	-	15,964
Total Assets	\$ 17,634,431	\$ 6,744,588	\$ 33,851,815	\$ 17,351,042	\$ 75,581,876
Liabilities and Fund Balances					
Liabilities:					
Accounts payable and accrued liabilities	\$ 1,447,423	\$ 100,936	\$ 1,208,720	\$ 120,181	\$ 2,877,260
Retainage payable	-	-	397,745	2,052	399,797
Due to other funds	-	-	-	18,460	18,460
Unearned revenues	5,483,296	1,631,488	-	2,963,427	10,078,211
Other	125,077	-	-	2,323	127,400
Total Liabilities	7,055,796	1,732,424	1,606,465	3,106,443	13,501,128
Fund Balances:					
Reserved for:					
Encumbrances	3,124,330	699,950	-	136,301	3,960,581
Prepaid items	27,791	-	-	-	27,791
Other purposes - construction projects	-	1,057,432	32,245,350	500,004	33,802,786
Unreserved:					
Designated for subsequent years' expenditures	1,084,934	3,254,782	-	-	4,339,716
Undesignated	6,341,580	-	-	-	6,341,580
Unreserved, reported in nonmajor:					
Special revenue funds	-	-	-	13,214,082	13,214,082
Capital projects funds	-	-	-	394,212	394,212
Total Fund Balances	10,578,635	5,012,164	32,245,350	14,244,599	62,080,748
Total Liabilities and Fund Balances	\$ 17,634,431	\$ 6,744,588	\$ 33,851,815	\$ 17,351,042	\$ 75,581,876

See accompanying notes to basic financial statements.

City of Fort Smith, Arkansas
Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Assets
December 31, 2005

Total fund balances - governmental funds \$ 62,080,748

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. These assets consist of:

Land	\$	21,278,197	
Buildings		69,121,909	
Improvements other than buildings		7,405,382	
Machinery and equipment		22,579,658	
Infrastructure		178,295,144	
Accumulated depreciation		<u>(63,397,577)</u>	
		235,282,713	
Construction In Progress		<u>26,643,562</u>	
 Total	 \$	 <u>261,926,275</u>	 261,926,275

Some revenues in the governmental funds are unearned because they are not collected within the prescribed time period after year end and are not considered available. On the accrual basis, however, those revenues would be recognized regardless of when they are collected. 9,242,223

Internal service funds are used by management to charge the costs of certain activities, such as fuel and insurance, to individual funds. A portion of the assets and liabilities are included in governmental activities in the statement of net assets. 632,148

Some long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds. Those liabilities consist of:

Compensated absences	\$	1,828,659	
Claims payable		82,500	
Capital leases payable		<u>1,442,517</u>	
	\$	<u>3,353,676</u>	<u>(3,353,676)</u>

Net assets of governmental funds \$ 330,527,718

See accompanying notes to basic financial statements.

City of Fort Smith, Arkansas
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2005

	General	Street Maintenance	Sales Tax	Other Governmental Funds	Total Governmental Funds
Revenues					
Taxes	\$ 5,076,061	\$ 1,520,730	\$ -	\$ 2,027,640	\$ 8,624,431
Sales taxes	13,864,325	-	17,372,140	-	31,236,465
Licenses and permits	1,307,676	-	-	191,475	1,499,151
Utility franchise fees	6,833,462	-	-	-	6,833,462
Intergovernmental	3,578,475	3,961,373	868,340	4,544,800	12,952,988
Fines and forfeitures	1,934,031	-	-	130,301	2,064,332
Fees for services	978,987	-	-	-	978,987
Interest	176,106	167,019	800,227	387,380	1,530,732
Contributions	468	-	-	807,681	808,149
Miscellaneous	223,333	1,451	14,802	10,775	250,361
Total Revenues	33,972,924	5,650,573	19,055,509	8,100,052	66,779,058
Expenditures					
Current:					
General government					
Administration	3,522,039	181,143	-	-	3,703,182
Legal	1,400,498	40,094	-	-	1,440,592
Finance	1,472,601	262,872	-	-	1,735,473
Public safety					
Police	11,571,019	-	-	1,998,206	13,569,225
Fire	8,517,459	-	-	2,053,000	10,570,459
Public works					
Operations	-	345,669	-	-	345,669
Streets	-	2,185,362	266,465	229,722	2,681,549
Traffic Control	-	1,573,716	-	-	1,573,716
Community services					
Health and Social Services	98,800	-	-	-	98,800
Parks and Recreation	1,677,165	206,283	-	22,000	1,905,448
Convention Center	-	-	-	1,237,194	1,237,194
Transit	1,834,226	-	-	31,734	1,865,960
Housing and Rehabilitation	-	-	-	1,355,974	1,355,974
Other	2,277,397	21,501	-	36,018	2,334,916
Debt Service:					
Principal	-	-	-	-	-
Interest	-	-	-	-	-
Capital Outlay	2,291,936	157,065	11,099,827	519,261	14,068,089
Total Expenditures	34,663,140	4,973,705	11,366,292	7,483,109	58,486,246
Excess (Deficiency) of revenues over (under) expenditures	(690,216)	676,868	7,689,217	616,943	8,292,812
Other Financing Sources (Uses)					
Transfers in	2,045,200	288,750	1,717,140	50,000	4,101,090
Transfers out	(779,810)	(1,668,080)	(1,859,200)	-	(4,307,090)
Capital lease financing	1,241,713	-	-	-	1,241,713
Total Other Financing Sources and Uses	2,507,103	(1,379,330)	(142,060)	50,000	1,035,713
Net Change in Fund Balances	1,816,887	(702,462)	7,547,157	666,943	9,328,525
Fund Balances, January 1	8,761,748	5,714,626	24,698,193	13,577,656	52,752,223
Fund Balances, December 31	\$ 10,578,635	\$ 5,012,164	\$ 32,245,350	\$ 14,244,599	\$ 62,080,748

See accompanying notes to basic financial statements.

City of Fort Smith, Arkansas
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances
of Governmental Funds to the Statement of Activities
For the Year Ended December 31, 2005

Net change in fund balances - total governmental funds \$ 9,328,525

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the government-wide statement of activities and changes in net assets, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of capital assets recorded in the current period. 14,068,089

The net effect of various transactions, i.e. sales, contributions, capital leases, is to increase net assets. (661,945)

Depreciation expense on capital assets is reported in the government-wide statement of activities and changes in net assets, but they do not require the use of current financial resources. Therefore, depreciation expense is not reported as an expenditure in governmental funds. (6,919,042)

The repayment of the principal of long-term debt consumes the current financial resources of governmental funds. This transaction has no effect on net assets. -

Some property taxes will not be collected for several months after the City's fiscal year end and they are not considered "available" revenues in the governmental funds. 307,803

Some expenses, i.e. the increase in compensated absences liability, reported in the statement of activities and changes in net assets do not require the use of current financial resources, and, therefore, are not reported as expenditures in the governmental funds. (249,965)

Internal service funds are used by management to charge the costs of certain activities, such as insurance and fuel, to individual funds. The net loss of the internal service funds is reported with governmental activities [net of the amount allocated to business-type activities of \$184,243 and the external activities adjustment of \$(484,026)]. 74,102

Change in net assets of governmental funds \$ 15,947,567

City of Fort Smith, Arkansas
Statement of Fund Net Assets
Proprietary Funds
December 31, 2005

Assets	Enterprise Funds			Internal Service Funds
	Water and Sewer	Sanitation	Total	
Current Assets:				
Cash	\$ 9,317	\$ 323,951	\$ 333,268	\$ 355,797
Investments	6,690,069	3,416,527	10,106,596	1,827,061
Receivables, net of allowance for uncollectibles				
Accounts	3,267,842	943,771	4,211,613	35,168
Accrued interest	226,629	20,386	247,015	6,388
Restricted:				
Cash	-	19,827	19,827	-
Investments	14,163,044	193,534	14,356,578	-
Accounts receivable, net of allowances for uncollectibles	-	33,264	33,264	-
Interest receivable	32,477	3,907	36,384	-
Sales tax receivable	1,448,385	-	1,448,385	-
Inventory	642,279	-	642,279	44,216
Prepaid items and deposits	3,909	-	3,909	-
Due from other funds	-	-	-	398
Total Current Assets	26,483,951	4,955,167	31,439,118	2,269,028
Noncurrent Assets:				
Restricted:				
Investments	43,544,832	3,308,279	46,853,111	-
Prepaid items and deposits	102,980	-	102,980	-
Deferred charges	1,562,645	52,243	1,614,888	-
Capital assets:				
Land	9,644,077	373,772	10,017,849	-
Buildings	-	1,354,371	1,354,371	-
Improvements other than buildings	-	14,518,910	14,518,910	-
Leasehold improvements	-	709,952	709,952	-
Machinery and equipment	7,554,587	13,829,680	21,384,267	-
Water system	121,657,044	-	121,657,044	-
Sewer system	119,222,143	-	119,222,143	-
Construction in progress	148,009,758	4,079,259	152,089,017	-
Less accumulated depreciation	(95,801,433)	(18,796,375)	(114,597,808)	-
Total Noncurrent Assets	355,496,633	19,430,091	374,926,724	-
Total Assets	381,980,584	24,385,258	406,365,842	2,269,028
Liabilities				
Current liabilities:				
Accounts payable and accrued liabilities	5,763,572	602,115	6,365,687	143,572
Retainage payable	6,750,314	-	6,750,314	-
Accrued vacation and sick leave	4,094	5,452	9,546	-
Accrued interest	1,832,886	18,034	1,850,920	-
Claims and judgments	-	-	-	1,113,705
Revenue bonds payable	6,820,000	850,000	7,670,000	-
Sales tax bonds payable	9,420,000	-	9,420,000	-
Capital leases payable	-	352,496	352,496	-
Deposits	1,070,412	-	1,070,412	-
Other	10,914	-	10,914	-
Total Current Liabilities	31,672,192	1,828,097	33,500,289	1,257,277
Noncurrent liabilities:				
Accrued vacation and sick leave	897,368	219,676	1,117,044	-
Landfill closure and postclosure care	-	2,581,548	2,581,548	-
Revenue bonds, net	135,529,220	4,469,137	139,998,357	-
Sales and use tax bonds, net	33,560,261	-	33,560,261	-
Capital Leases Payable	-	210,381	210,381	-
Total Noncurrent Liabilities	169,986,849	7,480,742	177,467,591	-
Total Liabilities	201,659,041	9,308,839	210,967,880	1,257,277
Net Assets				
Invested in capital assets, net of related debt	171,251,841	10,187,555	181,439,396	-
Restricted for bond retirement	20,693,542	726,731	21,420,273	-
Restricted for landfill closure and postclosure care	-	4,076,437	4,076,437	-
Restricted for asset replacement	500,000	125,471	625,471	-
Restricted for capital projects	-	722,295	722,295	-
Unrestricted (deficit)	(12,123,840)	(762,070)	(12,885,910)	1,011,751
Total Net Assets	\$ 180,321,543	\$ 15,076,419	195,397,962	\$ 1,011,751

Reconciliation to government - wide statement of net assets:

Adjustment to reflect the consolidation of internal service funds activities related to enterprise funds	379,603
Net assets of business type activities	<u>\$ 195,777,565</u>

See accompanying notes to basic financial statements.

City of Fort Smith, Arkansas
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended December 31, 2005

	Enterprise Funds			Internal Service Funds
	Water and Sewer	Sanitation	Total	
Operating Revenues				
Water service	\$ 20,210,752	\$ -	\$ 20,210,752	\$ -
Sewer service	9,718,481	-	9,718,481	-
Charges for services	439,209	11,129,352	11,568,561	6,990,350
Other	33,583	-	33,583	-
Total Operating Revenues	<u>30,402,025</u>	<u>11,129,352</u>	<u>41,531,377</u>	<u>6,990,350</u>
Operating Expenses				
Personnel services	9,914,202	4,505,885	14,420,087	-
Contractual services	2,140,751	1,191,143	3,331,894	732,899
Materials and supplies	3,630,877	2,047,228	5,678,105	495,152
Heat, light, and power	1,430,934	31,677	1,462,611	-
Depreciation	7,229,756	895,637	8,125,393	-
Insurance claims and expenses	-	-	-	5,957,061
Total Operating Expenses	<u>24,346,520</u>	<u>8,671,570</u>	<u>33,018,090</u>	<u>7,185,112</u>
Operating Income (Loss)	<u>6,055,505</u>	<u>2,457,782</u>	<u>8,513,287</u>	<u>(194,762)</u>
Nonoperating Revenues (Expenses)				
Interest revenue	1,662,110	250,363	1,912,473	61,736
Increase in fair value of investments	556,728	5,948	562,676	-
Interest expense and fiscal charges	(5,243,292)	(239,814)	(5,483,106)	-
Sales tax revenue	17,372,140	-	17,372,140	-
Other nonoperating revenues, net	47,781	56,066	103,847	-
Total Nonoperating Revenues (Expenses)	<u>14,395,467</u>	<u>72,563</u>	<u>14,468,030</u>	<u>61,736</u>
Income Before Contributions and Transfers	20,450,972	2,530,345	22,981,317	(133,026)
Capital contributions	1,376,054	-	1,376,054	-
Transfers in	30,000	300,000	330,000	-
Transfers out	(62,000)	(62,000)	(124,000)	-
Change in Net Assets	<u>21,795,026</u>	<u>2,768,345</u>	<u>24,563,371</u>	<u>(133,026)</u>
Total net assets, beginning of year	<u>158,526,517</u>	<u>12,308,074</u>		<u>1,144,777</u>
Total net assets, ending	<u>\$ 180,321,543</u>	<u>\$ 15,076,419</u>		<u>\$ 1,011,751</u>
Reconciliation to government - wide statement of activities:				
Adjustment to reflect the consolidation of internal service funds activities related to enterprise funds			(38,487)	
Change in net assets of business type activities for government - wide statement of activities			<u>\$ 24,524,884</u>	

See accompanying notes to basic financial statements.

City of Fort Smith, Arkansas
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2005

	Enterprise Funds			Internal Service Funds
	Water and Sewer	Sanitation	Total	
Cash Flows from Operating Activities:				
Cash received from customers	\$ 30,633,636	\$ 11,071,748	\$ 41,705,384	\$ -
Cash received from service users	-	-	-	870,438
Cash received from city and employee contributions	-	-	-	6,109,075
Cash payments for goods and services	(7,960,367)	(3,681,296)	(11,641,663)	(514,639)
Cash paid to employees	(9,831,189)	(4,560,063)	(14,391,252)	-
Cash payments for premiums and other operating expenses	-	-	-	(695,806)
Cash payments for claims paid	-	-	-	(5,935,638)
Cash received from other operating revenues	644,577	153,383	797,960	-
Net cash provided by operating activities	<u>13,486,657</u>	<u>2,983,772</u>	<u>16,470,429</u>	<u>(166,570)</u>
Cash Flows from Noncapital Financing Activities:				
Transfers in from other funds	30,000	300,000	330,000	-
Transfers out to other funds	(62,000)	(62,000)	(124,000)	-
Net cash provided by noncapital financing activities	<u>(32,000)</u>	<u>238,000</u>	<u>206,000</u>	<u>-</u>
Cash Flows from Capital and Related Financing Activities:				
Proceeds from sales tax	17,424,567	-	17,424,567	-
Bond proceeds	30,526,110	-	30,526,110	-
Proceeds from sale of capital assets	29,250	45,963	75,213	-
Acquisition and construction of capital assets	(40,112,566)	(4,182,800)	(44,295,366)	-
Principal paid on bonds	(31,955,000)	(820,000)	(32,775,000)	-
Interest paid on bonds	(14,400,746)	(232,065)	(14,632,811)	-
Net cash used for capital and related financing activities	<u>(38,488,385)</u>	<u>(5,188,902)</u>	<u>(43,677,287)</u>	<u>-</u>
Cash Flows from Investing Activities:				
Proceeds from sales and maturities of investment securities	165,958,502	6,841,209	172,799,711	956,565
Outlays for purchases of investment securities	(143,240,585)	(4,964,085)	(148,204,670)	(960,170)
Interest on investments	2,300,891	248,454	2,549,345	59,048
Net cash provided by (used for) investing activities	<u>25,018,808</u>	<u>2,125,578</u>	<u>27,144,386</u>	<u>55,443</u>
Net increase (decrease) in cash and restricted cash	(14,920)	158,448	143,528	(111,127)
Cash and restricted cash, January 1	<u>24,237</u>	<u>185,330</u>	<u>209,567</u>	<u>466,924</u>
Cash and restricted cash, December 31	<u>\$ 9,317</u>	<u>\$ 343,778</u>	<u>\$ 353,095</u>	<u>\$ 355,797</u>
Reconciliation of cash and restricted cash at December 31 to statement of net assets:				
Cash	\$ 9,317	\$ 323,951	\$ 333,268	\$ 355,797
Restricted cash	-	19,827	19,827	-
Total	<u>\$ 9,317</u>	<u>\$ 343,778</u>	<u>\$ 353,095</u>	<u>\$ 355,797</u>

See accompanying notes to basic financial statements.

City of Fort Smith, Arkansas
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2005
(Continued)

	Enterprise Funds			Internal Service Funds
	Water and Sewer	Sanitation	Total	
Reconciliation of operating income to net cash provided by operating activities:				
Operating income (loss)	\$ 6,055,505	\$ 2,457,782	\$ 8,513,287	\$ (194,762)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:				
Depreciation	7,229,756	895,637	8,125,393	-
Miscellaneous revenue (expenses)	(341,471)	89,122	(252,349)	-
Change in assets and liabilities:				
Accounts receivable	3,570	(57,604)	(54,034)	(10,810)
Due from other funds	344,218	-	344,218	(27)
Inventory	52,352	-	52,352	(17,962)
Prepaid items	116,311	-	116,311	-
Accounts payable and accrued liabilities	39,807	(14,418)	25,389	26,346
Due to other funds	-	(344,218)	(344,218)	-
Deposits	(82,594)	-	(82,594)	-
Accrued vacation and sick leave	71,141	(42,529)	28,612	-
Liability for claims and judgments	-	-	-	30,645
Other liabilities	(1,938)	-	(1,938)	-
Total adjustments	7,431,152	525,990	7,957,142	28,192
Net cash provided by (used for) operating activities	\$ 13,486,657	\$ 2,983,772	\$ 16,470,429	\$ (166,570)

Noncash investing, capital and financing activities:

Enterprise funds:

The Water and Sewer Fund received contributions of capital assets of \$1,376,054 for 2005 and recognized a \$556,728 increase in fair value of investments in 2005. The 2002 advance refunding, the 2004 current refunding, and the 2005 advance refunding of water and sewer revenue bonds resulted in cash flow savings of \$37,243, \$99,455, and \$64,286, respectively, for 2005.

The Sanitation Fund recognized an increase in fair value of investments of \$5,948 for 2005. During 2005, the 1998 and 2002 advance refundings for solid waste revenue bonds resulted in cash flow savings of \$37,563 and \$102,307, respectively.

See accompanying notes to basic financial statements.

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CITY OF FORT SMITH, ARKANSAS

Notes to Basic Financial Statements

December 31, 2005

(1) Nature of Operations and Summary of Significant Accounting Policies

The City of Fort Smith, Arkansas (the "City") is a municipal corporation operating under the authority of Arkansas state statute. The City operates under a city administrator form of government. Seven elected directors and the Mayor set policy. The directors employ the City Administrator. The accounting and reporting policies of the City conform to accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the standard-setting body accepted in the United States for establishing governmental accounting and financial reporting principles. Enterprise funds and similar component units also apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989 that do not conflict with or contradict GASB pronouncements. The following is a summary of the more significant accounting and reporting policies of the City.

(a) Reporting Entity

The city is a municipality governed by an elected mayor and a seven-member board of directors (Board). As required by GAAP, these financial statements present the City (Primary Government) and its component units. The component units are legally separate from the City, but are included in the City's reporting entity because of the significance of their operational or financial relationships with the City based upon the criteria of GASB Statement 14, *the Financial Reporting Entity*, as amended by GASB Statement 39, *Determining whether Certain Organizations Are Component Units*. Generally, GASB Statements 14 and 39 require entities for which the City appoints a voting majority of the board and the entity imposes a financial benefit or burden to be included in the City's financial reporting entity. Additionally, those entities that the nature and significance of their relationship with the City is such that exclusion from the City's financial reporting entity would render the City's financial statements incomplete or misleading, should also be included in the City's reporting entity.

Those entities that meet the above established criteria for inclusion, as well as meet either of the following criteria (1) provide services entirely or almost entirely for the City, or (2) whose board is substantially the same as the City's board, are required to be included as part of the primary government's financial statements through "blended" presentation. Those entities that meet the above established criteria for inclusion, but do not either (1) provide services entirely or almost entirely for the City, or (2) have the same or substantially the same board as the City, are required to be presented "discretely" or in a separate column as part of the City's reporting entity, but not part of the primary government. Entities for which the City is accountable because it appoints a voting majority of the Board but is not financially accountable, are related organizations and would be disclosed in these notes.

All entities that are not included as "Blended Component Units," "Discretely Presented Component Units," or "Related Organizations" below are excluded from the City's financial reporting entity.

CITY OF FORT SMITH, ARKANSAS

Notes to Basic Financial Statements

December 31, 2005

Discretely Presented Component Units

Business-Type

Fort Smith Parking Authority (the Authority)

The Authority's governing board is appointed by the City's Board; the operation and administration of the Authority's property is conducted by City personnel; and the legal liability for the Authority's revenue bond obligation remains with the City. In addition, the City provides a subsidy to fund the Authority's operations; however, the Authority functions almost entirely for the benefit of residents and other customers. The Authority is a special purpose government engaged solely in business-type activities and is discretely presented in the City's basic financial statements. Separate financial statements are not prepared for the Authority. See Note 13 on pages 76-77 of these notes for condensed financial statements.

Airport Commission

The Airport Commission manages the Fort Smith Regional Airport and consists of seven members as appointed by the Mayor and confirmed by the Board. Debt is issued in the name of the City and the tax rate on aviation fuel must be approved by the Board. The Airport Commission is a special purpose government engaged solely in business-type activities and is discretely presented in the City's basic financial statements. Financial statements of the Airport Commission can be obtained from the Airport's administrative office located at 6700 McKennon Boulevard, Suite 200, Fort Smith, Arkansas 72903, or from the City Clerk's office. See Note 13 on pages 76-77 of these notes for condensed financial statements.

Governmental

Advertising and Promotion Commission (the Commission)

The Commission was established during 1989 to promote the City and increase tourism. The Commission is governed by seven members appointed by the Board. The Mayor and one board member serve as two of the seven members of the Commission. The City levies taxes for the Commission's revenue, performs administrative services for collection of taxes and provides financial services to the Commission. However, the Commission functions for the benefit of the citizens and visitors to the City. The Commission is a special purpose government engaged in governmental activities and is discretely presented in the City's basic financial statements. Separate financial statements are not prepared for the Commission. See Note 13 on pages 76-77 of these notes for condensed financial statements.

Public Library

The board of trustees for the Fort Smith Public Library manages the Public Library and consists of seven members appointed by the Mayor and confirmed by the Board. Debt is issued in the name of the City and the Public Library's ad valorem tax is levied by the City annually. The Public Library is a special purpose government engaged in governmental activities and is discretely presented in the City's basic financial statements. Financial statements of the Public Library can be obtained from the Library's administrative office located at 3201 Rogers Avenue, Fort Smith, Arkansas, 72903, or from the City Clerk's office. See Note 13 on pages 76-77 of these notes for condensed financial statements.

CITY OF FORT SMITH, ARKANSAS

Notes to Basic Financial Statements

December 31, 2005

Related Organizations

The City's Mayor and Board are also responsible for appointing members of the boards of other organizations, but the City's accountability for these organizations does not extend beyond making the appointments. The Mayor and Board appoint the members of the Fort Smith Housing Authority and the Solid Waste Management District; however, the City cannot impose its will upon the Housing Authority or the Solid Waste Management District as stated in GASB Statements 14 and 39; therefore, the financial operations of these related organizations have not been included in the City's basic financial statements.

(b) Change in Accounting Principles

Effective January 1, 2005, the City implemented the following new financial accounting and reporting standards issued by GASB:

- *Statement No. 42, Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*

Statement No. 42 establishes accounting and financial reporting standards for impairment of capital assets.

(c) *Government-Wide and Fund Financial Statements*

The basic financial statements include both government-wide (based on the City as a whole) and fund financial statements as follows:

Government-Wide Financial Statements

The government-wide financial statements report information on all of the nonfiduciary activities of the primary government and its component units. Fiduciary activities are excluded from the government-wide statements because they cannot be used to support the City's own programs. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. These statements distinguish between the governmental and business-type activities of the City. Governmental activities generally are financed through taxes, intergovernmental revenues and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable. The statement of activities demonstrates the degree to which the direct expenses of a given function or identifiable activity are offset by program revenues. Direct expenses are those that are clearly associated with a specific function or identifiable activity. Expenses that cannot be specifically identified to a particular function are charged to functions based on time spent for that function and are included in the functional categories. Program revenues include (a) charges to customers or applicants who purchase, use, or directly benefit from goods, services or privileges provided by a given function or identifiable activity and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program or identifiable activity. All other revenues are reported as general revenues.

CITY OF FORT SMITH, ARKANSAS

Notes to Basic Financial Statements

December 31, 2005

Fund Financial Statements

The fund financial statements provide information about the City's funds, including its fiduciary funds. Separate statements for each fund category-governmental, proprietary and fiduciary-are presented. The emphasis of fund financial statements is on major governmental and major enterprise funds, each displayed in a separate column. All other governmental and enterprise funds are aggregated and reported as nonmajor funds. Internal service funds are also aggregated and reported in a single column.

The City reports the following major governmental funds:

The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *Street Maintenance Fund* is a special revenue fund which accounts for resources related to street and traffic control operations. Minor maintenance, repair and construction of streets and traffic control signals as well as street lighting are included in this fund.

The *Sales Tax Fund* is a special revenue fund which accounts for resources from the City's one percent (1%) local sales and use tax dedicated to the major street, bridge, and associated drainage projects.

The City reports the following major proprietary funds:

The *Water and Sewer Fund* is an enterprise fund which accounts for the activities of the water and wastewater operations. The City operates water treatment plants and distribution lines and wastewater treatment plants, pumping stations and collection systems.

The *Sanitation Fund* is an enterprise fund which accounts for the activities of providing solid waste collection and disposal. The City's landfill activities are included in this fund.

Additionally, the City reports the following fund types:

Special Revenue Funds- The special revenue funds, which include federal and state grants, are used to account for the proceeds of specific revenue sources, other than major capital projects, that are legally restricted to expenditures for specified purposes. The City's nonmajor special revenue funds are Community Development Block Grant (CDBG) Funds, Tilles Park Fund, Home Investment Partnership Act Fund, Special Grants Fund, LOPFI Contribution Fund, and Convention Center.

Capital Projects Funds-The capital projects funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities, other than those financed by enterprise funds. The City has one capital project which is the Sidewalk Construction Fund.

Internal Service Funds- The internal service funds are used to account for centralized services, employee health care, and workers' compensation coverage provided to the City departments on a cost-reimbursement basis.

Agency Fund- Accounts for payroll activities for the City. The City's agency fund is the Payroll Fund.

CITY OF FORT SMITH, ARKANSAS

Notes to Basic Financial Statements

December 31, 2005

(d) ***Measurement Focus and Basis of Accounting***

Government-Wide, Proprietary and Fiduciary Funds

The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of related cash flows.

Proprietary fund operating revenues and expenses are distinguished from nonoperating items. Operating revenues and expenses generally result from providing services in connection with the principal ongoing operations of the fund. All revenues and expenses not meeting this definition are reported as nonoperating items.

Nonexchange transactions, in which the City receives (or gives) value without directly giving (or receiving) equal value in exchange, include taxes; fines and forfeitures; grants, entitlements, and similar items; and contributions. Recognition standards are based on the characteristics and classes of nonexchange transactions. Property taxes are recognized as revenues in the year for which they are levied. Utility franchise fees, other taxes, and fines and forfeitures are recognized as revenues, net of estimated refunds and uncollectible amounts, in the accounting period when an enforceable legal claim to the assets arises and the use of resources, is required or is first permitted. All of the utility franchise fees remitted to the City are based upon the gross receipts of the franchised utility. Grants, entitlements, and contributions are recognized as revenues, net of estimated uncollectible amounts, as soon as all eligibility requirements imposed by the provider have been met. Amounts received before all eligibility requirements have been met are reported as deferred revenues. Grants and similar aid to other organizations are recognized as expenses as soon as recipients have met all eligibility requirements. Amounts paid before all eligibility requirements have been met are reported as prepaid items.

Governmental Fund Financial Statements

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and liabilities are generally included on the balance sheet. The statement of revenues, expenditures and changes in fund balances presents increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in spendable resources. General capital asset acquisitions are reported as expenditures and proceeds of general long-term debt are reported as other financing sources. Under the modified accrual basis of accounting, revenues are recognized when both measurable and available. The City considers revenues reported in the governmental funds to be available if they are collectible within sixty (60) days after year-end with the exception of grant revenues which are considered available if collected within one year. Principal revenue sources considered susceptible to accrual include ad valorem taxes, sales taxes, utility franchise fees, grant revenues and interest. Other revenues, such as fines and forfeitures and service charges, are considered to be measurable and available only when cash is received by the City. Expenditures generally are recorded when the related liability is incurred under the accrual basis of accounting, except for expenditures related to principal and interest on long-term debt, claims and judgments, and compensated absences which are recorded only when payment is due.

(e) ***Cash and Investments***

In order to facilitate cash management, the operating cash of certain funds is pooled into common bank accounts for the purpose of increasing income through combined investment activities. Investments are carried at fair value. Interest earned on investments is recorded in the funds in which the investments are recorded.

CITY OF FORT SMITH, ARKANSAS

Notes to Basic Financial Statements

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(f) Inventories

Inventories, consisting primarily of gasoline and waterline materials, are valued on the average cost basis.

(g) Capital Assets

Capital assets, which include infrastructure assets constructed since 1980, are reported in the government-wide financial statements and the fund financial statements for proprietary funds.

Capital assets are recorded at cost including interest during the construction period for business-type activities. Contributed property is recorded at fair value at the date of contribution. Depreciation is recorded on each class of depreciable property utilizing the straight-line method over the estimated useful lives of the assets, or on the units-of-production method based on filled capacity utilized for the City's landfill.

The ranges of estimated useful lives, excluding improvements other than buildings for the Sanitation Fund, are as follows:

<u>Fixed Assets</u>	<u>Useful life (years)</u>
Governmental Activities:	
Buildings	10 to 50
Improvements other than buildings	5 to 50
Infrastructure-	
Streets	40
Bridges	30
Drainage	20
Machinery and equipment	5 to 20
Business-Type Activities:	
Enterprise Funds:	
Water and Sewer System:	
Water system	10 to 50
Sewer system	10 to 50
Machinery and equipment	5 to 10
Sanitation:	
Buildings	35
Leasehold improvements	10 to 30
Machinery and equipment	3 to 10
Discretely Presented Component Units:	
Public Library:	
Fixtures and equipment	5 to 10
Transportation equipment	5
Parking Authority:	
Buildings	30
Machinery and equipment	3 to 10
Airport Commission:	
Buildings and improvements	10 to 30
Improvements other than buildings	5 to 20
Machinery and equipment	3 to 15
Furniture and fixtures	3 to 10
Ramps, runways, taxiways, and improvements	3 to 50

Renewals and betterments of property and equipment are capitalized, whereas normal repairs and maintenance are charged to expense as incurred.

CITY OF FORT SMITH, ARKANSAS

Notes to Basic Financial Statements

December 31, 2005

Interest is capitalized on enterprise fund capital assets acquired with tax-exempt debt. The amount of interest to be capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project with interest earned on invested proceeds over the same period. Interest capitalized in 2005 approximated \$4,071,663.

The City's capitalization policy states that capital assets are defined as assets with an initial value or cost greater than or equal to \$5,000 and an estimated useful life of greater than one year. Exceptions are for infrastructure assets which are defined as having a constructed cost greater than or equal to \$250,000.

(h) *Property Tax Revenue*

Taxes are levied on October 1 and are due and payable at that time. Property taxes attach an enforceable lien on property the first Monday in January. All unpaid taxes levied October 1 become delinquent October 10 of the following year.

Sebastian County is the collecting agent for the levy and remits the collections to the City, net of a collection fee.

The City is permitted by Arkansas State Law to levy taxes up to \$0.50 per \$100 of assessed valuation on real and personal property for general governmental services, \$0.50 per \$100 of assessed valuation on real and personal property for the payment of principal and interest on long-term debt, \$0.10 per \$100 of assessed valuation on real and personal property for the police pension funds and \$0.10 per \$100 of assessed valuation on real and personal property for the fire pension funds. The combined tax rate levied by the City in 2005 to finance the above operations was \$0.70 per \$100 of assessed valuation on real and personal property, leaving a tax margin of \$0.50 per \$100 of assessed valuation on real and personal property. Approximately \$5,400,461 of additional taxes could be raised per year based on the current year's assessed value of \$733,760,780 for real property and \$346,331,415 for personal property before the limit is reached.

(i) *Compensated Absences*

The City allows nonuniformed employees to accumulate unused vacation of up to 160 hours, police to accumulate unused vacation of up to 160 hours, and firefighters to accumulate unused vacation of up to 240 hours for one year. Upon termination, any accumulated unused vacation time will be paid to the employees. Generally, City employees are allowed to accumulate unused sick leave up to a maximum of 120 days. Any accumulated unused sick leave over 45 days for nonuniformed employees hired prior to February 4, 1992, and any accumulated unused sick leave over 90 days for nonuniformed employees hired February 4, 1992, and thereafter is paid upon termination. At the end of term of service, police officers will be paid for any accumulated unused sick leave upon retirement to a maximum amount equal to three month's salary for police officers in the rank retired. At the end of term of service, firefighters shall be paid for any accumulated unused sick leave upon retirement to a maximum amount of three month's salary in the rank of Assistant Chief and above, and to a maximum amount of 728 hours for firefighters in the rank of Captain and below.

CITY OF FORT SMITH, ARKANSAS

Notes to Basic Financial Statements

December 31, 2005

The City records a liability for compensated absences as the employee earns benefits attributable to services already rendered that are not contingent on a specific event that is outside the control of the City. All compensated absences are accrued when incurred in the government-wide and proprietary financial statements. A liability for these amounts is reported in the governmental funds only if they have matured such as a result of employee resignations and retirements.

(j) Risk Management

The City maintains a medical self-insurance plan funded by the City and administered by a third party. The plan provides certain healthcare benefits to active and retired City employees. Substantially all regular, full-time City employees are eligible for these benefits. The City's cost of providing these benefits, including premiums, totaled \$6,304,849 in 2005, and are included in operating expenses in the Employee Insurance Fund. The City contributes fully for each employee and shares in the contribution for any dependants. Retired employees may continue coverage under the City's policy, but must bear the entire cost of these contributions.

The City also makes contributions to fund a self-insured workers' compensation program. The City contributed \$385,111 in 2005 to fund this program. There have been no significant reductions in insurance coverage from the prior year and there were no settlements that exceeded insurance coverage in the past three fiscal years.

(k) Sales Taxes

In November 1985, the City began assessing a 1% sales and use tax on retail sales in the City. The tax is collected by the state and remitted to the City, net of a collection fee. Taxes for this purpose totaled \$17,372,140 for fiscal year 2005, and are included in the Sales Tax Fund's sales tax revenues in the accompanying financial statements. Sales tax revenues are restricted for repair, maintenance, and improvement of City streets, bridges, and associated drainage. The City refers the tax to the voters every ten years for reapproval. The tax is currently extended through 2015.

In August 1994, Sebastian County began assessing a 1% sales and use tax on retail sales in the county. Each city within Sebastian County receives a portion of the tax based upon population of the city. Currently, the City receives approximately 70% of the county tax. The tax is collected by the state and remitted to the City, net of a collection fee. Taxes totaled \$13,864,325 for fiscal year 2005. These taxes are included in the General Fund's sales tax revenues. The City refers the tax to the voters every ten years for reapproval. The tax is currently in place through August 2014 as the tax was reapproved during 2003 for the period August 2004 through August 2014.

CITY OF FORT SMITH, ARKANSAS

Notes to Basic Financial Statements

December 31, 2005

In May 2001, the City began assessing a ½% sales and use tax on retail sales in the City. Sales tax revenues are restricted for the repayment of the Sales and Use Tax Construction Bonds, Series 2001, which are funding wastewater improvements and a portion of the Lake Fort Smith water supply expansion project. Additionally, in January 1998, the City began assessing a ½% sales and use tax on retail sales in the City. The 1998 tax was restricted to repayment of the Sales and Use Tax Construction Bonds Series 1997, which funded the convention center, library and riverfront improvements. The 1997 Bonds were redeemed in full in June 2004. The 1998 tax is now pledged to the 2001 Bonds. These taxes are collected by the state and remitted to the City net of a collection fee. The taxes for this purpose totaled \$17,372,140 for fiscal year 2005, and are included in the Water and Sewer Fund nonoperating revenues in the accompanying financial statements. The Series 2001 Bonds are expected to be retired by 2008.

(l) *Statements of Cash Flows*

For purpose of the statement of cash flows, the proprietary funds consider all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents, which are classified as cash and restricted cash in the accompanying statement of net assets.

(m) *Long-Term Obligations*

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in governmental activities, business-type activities and component units. These amounts are also reported as liabilities in the fund financial statements for proprietary funds. In governmental funds, long-term liabilities are only recorded to the extent that they are due and payable. Debt premiums, discounts and deferred losses on refunding are generally deferred and amortized over the shorter of refunded debt or refunded debt's life using the straight-line method which approximates the effective interest method. Long-term debt is reported net of the applicable debt premium or discount and deferred losses on refundings. Debt issuance costs are deferred and amortized over the life of the related debt using the straight-line method.

In the fund financial statements, governmental fund types recognize debt discounts and premiums, as well as debt issuance costs, during the current period. The face amount of the debt issued and discounts given are reported separately as other financing sources. Issuance costs, whether or not withheld from the actual proceeds received, are reported as debt service expenditures.

CITY OF FORT SMITH, ARKANSAS

Notes to Basic Financial Statements

December 31, 2005

(n) Restricted Assets

Assets are reported as restricted when constraints placed on them are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or are imposed by law through constitutional provisions or enabling legislation.

When both restricted and unrestricted resources are available for use, generally it is the City's policy to use restricted resources first. For projects funded by tax-exempt debt proceeds and other sources, the debt proceeds are used first. Certain proceeds of the City's enterprise funds revenue bonds and sales and use tax bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because they are maintained in separate bank accounts and their use is limited by applicable bond covenants. The balances of the restricted assets accounts in the enterprise funds are as follows:

Current Assets:	
Cash- solid waste bond account	\$19,827
Investments- solid waste bond account	193,534
Investments- water and sewer bond account	4,509,960
Investments- water and sewer sales and use tax bond account	2,902,770
Investments- water and sewer bond construction account	6,750,314
Accounts receivable- solid waste cleanup program account	33,264
Interest receivable- solid waste bond account	3,907
Interest receivable- water and sewer bond account	68
Interest receivable- water and sewer sales and use tax bond account	32,409
Sales tax receivable- water and sewer sales and use tax bond account	1,448,385
Total current assets- restricted	<u>15,894,438</u>
Noncurrent assets:	
Investments- solid waste debt service reserve account	726,731
Investments- solid waste landfill closure and postclosure care account	2,581,548
Investments- water and sewer sales and use tax debt service reserve account	4,000,000
Investments- water and sewer bond construction account	39,544,832
Prepaid items and deposits- water and sewer bond construction account	102,980
Total noncurrent assets	<u>46,956,091</u>
Total restricted assets	<u><u>\$62,850,529</u></u>

(o) Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses/expenditures during the reporting period. Actual results could differ from these estimates.

CITY OF FORT SMITH, ARKANSAS

Notes to Basic Financial Statements

December 31, 2005

(2) Cash and Investments

The City maintains a cash and investment pool that is available for use by all City funds. The Municipal Court Retirement System participates in the pool. In addition, investments are separately held by some of the City's funds.

The City follows GASB Statement 3, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, as amended by GASB Statement 40, *Deposit and Investment Risk Disclosure*.

The investments and deposits of the primary government are stated at quoted fair values. As a result, an unrealized gain of \$562,676 is recorded as an increase in fair value of investments for the primary government in 2005, all related to the City's enterprise funds.

(a) Deposits

State and City statutes authorize the City's funds to be deposited in demand deposits or certificates of deposit. The bank balances and carrying amount of the City's deposits held as of December 31, 2005, were as follows:

Pooled and Nonpooled Funds

<u>Description</u>	<u>Bank Balance</u>	<u>Carrying Amount</u>
Demand deposits	\$19,379,615	\$19,463,480
Certificates of deposit	<u>70,913,962</u>	<u>70,978,252</u>
	<u>\$90,293,577</u>	<u>\$90,441,732</u>

Component Units

At year-end, the carrying amount and the bank balance of the Advertising and Promotion Commission deposits was \$255,542.

At year-end, the carrying amount of the Public Library's deposits was \$634,198 and the bank balance was \$685,394.

At year-end, the carrying amount and the bank balance of the Parking Authority's deposits was \$77,343.

At year-end, the carrying amount of the Airport Commission's deposits was \$2,437,857 and the bank balance was \$2,502,500.

(b) Investments

State statutes and City ordinances authorize the City to invest funds in obligations of the U.S. Government. The City pension funds are authorized to invest in obligations of the U.S. Treasury, U.S. agencies and instrumentalities, commercial paper, corporate stocks, bonds, and mutual funds.

CITY OF FORT SMITH, ARKANSAS

Notes to Basic Financial Statements

December 31, 2005

The City's investments, including accrued interest, held as of December 31, 2005 were as follows:

Pooled and Nonpooled Funds

<u>Description</u>	<u>Fair Value</u>	<u>Investment Maturities Less than 1 Year</u>
U.S. Treasury Bills	\$ 3,442,001	\$ 3,442,001
U.S. Treasury Notes	<u>39,943,642</u>	<u>39,943,642</u>
	<u>\$ 43,385,643</u>	<u>\$ 43,385,643</u>

Component Units

At year-end, the Public Library held \$257,267 in mutual funds and savings certificates. The Public Library reports investments at fair value.

At year-end, the Parking Authority fund held \$69,635 in U.S. Treasury Notes. The Parking Authority reports investments at fair value and the maturity of the notes is May 31, 2006.

At year-end, the Airport Commission held \$400,462 in U.S. Treasury Bills. The Airport Commission reports investments at fair value.

Interest Rate Risk. The City's investment policy does not limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk. The City's investments at December 31, 2005 are securities issued by the U.S. Government.

Custodial Credit Risks. The City's certificates of deposit are collateralized at a minimum of 100% of the deposits fair value. The collateral is held by the Federal Reserve Bank and the Arkansas Bankers' Bank in the City's name.

The following schedules reconcile the carrying amounts of deposits and investments to the government-wide and fiduciary fund statement of net assets:

Primary Government:

Carrying value of deposits- Pooled and nonpooled funds	\$90,441,732
Deposits classified as investments	<u>(87,746,854)</u>
	<u>\$ 2,694,878</u>
Cash as reported on the government-wide statement of net assets	\$ 2,675,051
Restricted cash as reported on the government-wide statement of net assets	<u>19,827</u>
	<u>\$ 2,694,878</u>

CITY OF FORT SMITH, ARKANSAS

Notes to Basic Financial Statements

December 31, 2005

Carrying value of investments-	
Pooled and nonpooled funds	\$ 43,385,643
Deposits classified as investments	<u>87,746,854</u>
	<u>\$131,132,497</u>

As reported on the government-wide statement of net assets:	
Investments	\$ 69,446,980
Interest receivable	439,444
Restricted investments	61,209,689
Restricted interest receivable	<u>36,384</u>
	<u>\$131,132,497</u>

Component Units:

Governmental type-	
Carrying value of deposits:	
Advertising and Promotion	
Commission	\$ 255,542
Public Library	634,198
Carrying value of investments:	
Public Library	<u>257,267</u>
	<u>\$1,147,007</u>

As reported on the government-wide statement of net assets:	
Cash	\$ 546,457
Investments	599,564
Interest receivable	<u>986</u>
	<u>\$ 1,147,007</u>

Business-type-	
Carrying value of deposits:	
Parking Authority	\$ 77,343
Airport Commission	2,437,857
Carrying value of investments:	
Parking Authority	69,635
Airport Commission	<u>400,462</u>
	<u>\$ 2,985,297</u>

As reported on the government-wide statement of net assets:	
Cash	\$ 533,341
Investments	1,209,228
Interest receivable	22,221
Restricted cash	92,914
Restricted investments	1,114,203
Restricted interest receivable	<u>13,390</u>
	<u>\$ 2,985,297</u>

CITY OF FORT SMITH, ARKANSAS

Notes to Basic Financial Statements

December 31, 2005

(3) Capital Assets

Capital asset activity for the year ended December 31, 2005 was as follows:

Primary Government:	December 31, 2004, Restated (Note 12)	Additions	Deletions/ Transfers	December 31, 2005
Governmental Activities:				
Capital assets not being depreciated:				
Land	\$ 20,822,508	\$ 455,689	\$ -	\$ 21,278,197
Construction in progress	34,248,618	11,428,593	(19,033,649)	26,643,562
Total capital assets not being depreciated	<u>55,071,126</u>	<u>11,884,282</u>	<u>(19,033,649)</u>	<u>47,921,759</u>
Capital assets being depreciated:				
Buildings	68,570,112	35,262	516,535	69,121,909
Improvements other than buildings	7,118,901	121,627	164,854	7,405,382
Infrastructure	159,942,884	-	18,352,260	178,295,144
Machinery and equipment	20,807,700	2,114,952	(342,994)	22,579,658
Total depreciable capital assets at historical cost	<u>256,439,597</u>	<u>2,271,841</u>	<u>18,690,655</u>	<u>277,402,093</u>
Less accumulated depreciation for:				
Buildings	7,381,015	1,512,230	-	8,893,245
Improvements other than buildings	4,495,532	277,168	-	4,772,700
Infrastructure	32,155,678	3,688,225	-	35,843,903
Machinery and equipment	12,758,748	1,441,419	(312,438)	13,887,729
Total accumulated depreciation	<u>56,790,973</u>	<u>6,919,042</u>	<u>(312,438)</u>	<u>63,397,577</u>
Capital assets being depreciated, net	<u>199,648,624</u>	<u>(4,647,201)</u>	<u>19,003,093</u>	<u>214,004,516</u>
Governmental activities capital assets, net	<u>\$ 254,719,750</u>	<u>\$ 7,237,081</u>	<u>\$ (30,556)</u>	<u>\$ 261,926,275</u>

CITY OF FORT SMITH, ARKANSAS

Notes to Basic Financial Statements

December 31, 2005

Primary Government-

	December 31, 2004	Additions	Deletions/ Transfers	December 31, 2005
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 9,840,299	\$ 177,550	\$ -	\$ 10,017,849
Construction in progress	114,129,664	38,584,431	(625,078)	152,089,017
Total capital assets not being depreciated:	<u>123,969,963</u>	<u>38,761,981</u>	<u>(625,078)</u>	<u>162,106,866</u>
Capital assets being depreciated:				
Water system	117,055,074	4,195,370	406,600	121,657,044
Sewer system	117,402,945	1,600,720	218,478	119,222,143
Buildings	1,334,374	19,997	-	1,354,371
Improvements other than buildings	14,518,910	-	-	14,518,910
Leasehold improvements	709,952	-	-	709,952
Machinery and equipment	20,148,190	1,907,309	(671,232)	21,384,267
Total capital assets at historical cost	<u>271,169,445</u>	<u>7,723,396</u>	<u>(46,154)</u>	<u>278,846,687</u>
Less accumulated depreciation for:				
Water system	44,161,379	3,433,142	-	47,594,521
Sewer system	39,600,327	3,373,014	-	42,973,341
Buildings	422,674	46,709	-	469,383
Improvements other than buildings	9,629,999	73,651	-	9,703,650
Leasehold improvements	622,800	15,837	-	638,637
Machinery and equipment	12,706,468	1,183,040	(671,232)	13,218,276
Total accumulated depreciation	<u>107,143,647</u>	<u>8,125,393</u>	<u>(671,232)</u>	<u>114,597,808</u>
Capital assets being depreciated, net	<u>164,025,798</u>	<u>(401,997)</u>	<u>625,078</u>	<u>164,248,879</u>
Business-type activities capital assets, net	<u>\$ 287,995,761</u>	<u>\$ 38,359,984</u>	<u>\$ -</u>	<u>\$ 326,355,745</u>

CITY OF FORT SMITH, ARKANSAS

Notes to Basic Financial Statements

December 31, 2005

Depreciation expense was charged to functions as follows:

Governmental activities:	
General government-	
Administration	\$ 52,843
Legal	5,586
Finance	78,057
Public safety-	
Police	443,268
Fire	297,426
Public Works-	
Operations	16,608
Streets	3,903,058
Traffic Control	21,116
Community services-	
Health and social services	4,074
Parks and recreation	1,150,837
Convention center	789,856
Transit	143,066
Housing and rehabilitation	<u>13,247</u>
Total governmental activities	
depreciation expense	<u>6,919,042</u>
Business type activities:	
Water and Sewer	7,229,756
Sanitation	<u>895,637</u>
Total business-type	
activities depreciation expense	<u>8,125,393</u>
Total depreciation expense	<u>\$ 15,044,435</u>

Reconciliation of capital asset additions to the capital outlay in the Statement of Revenues, Expenditures and Changes in Fund Balances-Governmental Funds:

Capital asset activity (on page 48):	
Additions for capital assets not being depreciated	\$ 11,884,282
Additions for capital assets being depreciated	<u>2,271,841</u>
	<u>\$ 14,156,123</u>
Capital outlay reported on the statement of revenues, expenditures and changes in fund balances- governmental funds	\$ 14,068,089
Contributed capital assets	<u>88,034</u>
	<u>\$ 14,156,123</u>

CITY OF FORT SMITH, ARKANSAS

Notes to Basic Financial Statements

December 31, 2005

Capital asset activity for the year ended December 31, 2005 for the major enterprise funds was as follows:

Primary Government-	December 31, 2004	Additions	Deletions/ Transfers	December 31, 2005
Water and Sewer Fund:				
Capital assets not being depreciated:				
Land	\$ 9,466,527	\$ 177,550	\$ -	\$ 9,644,077
Construction in progress	113,310,135	35,324,701	(625,078)	148,009,758
Total capital assets not being depreciated:	<u>122,776,662</u>	<u>35,502,251</u>	<u>(625,078)</u>	<u>157,653,835</u>
Capital assets being depreciated:				
Water system	117,055,074	4,195,370	406,600	121,657,044
Sewer system	117,402,945	1,600,720	218,478	119,222,143
Machinery and equipment	7,249,085	443,449	(137,947)	7,554,587
Total depreciable capital assets at historical cost	<u>241,707,104</u>	<u>6,239,539</u>	<u>487,131</u>	<u>248,433,774</u>
Less accumulated depreciation for:				
Water system	44,161,379	3,433,142	-	47,594,521
Sewer system	39,600,327	3,373,014	-	42,973,341
Machinery and equipment	4,947,918	423,600	-	5,233,571
Total accumulated depreciation	<u>88,709,624</u>	<u>7,229,756</u>	<u>(137,947)</u>	<u>95,801,433</u>
Capital assets being depreciated, net	<u>152,997,480</u>	<u>(990,217)</u>	<u>625,078</u>	<u>152,632,341</u>
Total water and sewer fund capital assets, net	<u>\$ 275,774,142</u>	<u>\$ 34,512,034</u>	<u>\$ -</u>	<u>\$ 310,286,176</u>
Sanitation Fund:				
Capital assets not being depreciated:				
Land	\$ 373,772	\$ -	\$ -	\$ 373,772
Construction in progress	819,529	3,259,730	-	4,079,259
Total capital assets not being depreciated:	<u>1,193,301</u>	<u>3,259,730</u>	<u>-</u>	<u>4,453,031</u>
Capital assets being depreciated:				
Buildings	1,334,374	19,997	-	1,354,371
Improvements other than buildings	14,518,910	-	-	14,518,910
Leasehold improvements	709,952	-	-	709,952
Machinery and equipment	12,899,105	1,463,860	(533,285)	13,829,680
Total depreciable capital assets at historical cost	<u>29,462,341</u>	<u>1,483,857</u>	<u>(533,285)</u>	<u>30,412,913</u>
Less accumulated depreciation for:				
Buildings	422,674	46,709	-	469,383
Improvements other than buildings	9,629,999	73,651	-	9,703,650
Leasehold improvements	622,800	15,837	-	638,637
Machinery and equipment	7,758,550	759,440	(533,285)	7,984,705
Total accumulated depreciation	<u>18,434,023</u>	<u>895,637</u>	<u>(533,285)</u>	<u>18,796,375</u>
Capital assets being depreciated, net	<u>11,028,318</u>	<u>588,220</u>	<u>-</u>	<u>11,616,538</u>
Total sanitation fund capital assets, net	<u>\$ 12,221,619</u>	<u>\$ 3,847,950</u>	<u>\$ -</u>	<u>\$ 16,069,569</u>

CITY OF FORT SMITH, ARKANSAS

Notes to Basic Financial Statements

December 31, 2005

Component Units-

	December 31, 2004	Additions	Deletions/ Transfers	December 31, 2005
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Governmental Activities:				
Public Library-				
Capital assets not being depreciated:				
Land	\$ 422,132	\$ -	\$ -	\$ 422,132
Capital assets being depreciated:				
Equipment	479,998	33,070	-	513,068
Transportation equipment	135,952	4,000	-	139,952
Total depreciable capital assets at historical cost	615,950	37,070	-	653,020
Less accumulated depreciation	569,230	13,103	-	582,333
Capital assets being depreciated, net	46,720	23,967	-	70,687
Governmental activities capital assets, net-Public Library	<u>\$ 468,852</u>	<u>\$ 23,967</u>	<u>\$ -</u>	<u>\$ 492,819</u>
Business-type activities:				
Parking Authority-				
Capital assets not being depreciated:				
Land	\$ 1,654,161	\$ -	\$ (295,000)	\$ 1,359,161
Capital assets being depreciated:				
Buildings	1,906,875	14,135	-	1,921,010
Machinery and equipment	73,525	-	-	73,525
Total depreciable capital assets at historical cost	1,980,400	14,135	-	1,994,535
Less accumulated depreciation for:				
Buildings	991,385	81,740	-	1,073,125
Machinery and equipment	46,151	10,167	-	56,318
Total accumulated depreciation	1,037,536	91,907	-	1,129,443
Capital assets being depreciated, net	942,864	(77,772)	-	865,092
Business-type activities capital assets, net-Parking Authority	<u>\$ 2,597,025</u>	<u>\$ (77,772)</u>	<u>\$ (295,000)</u>	<u>\$ 2,224,253</u>

CITY OF FORT SMITH, ARKANSAS

Notes to Basic Financial Statements

December 31, 2005

	December 31, 2004	Additions	Deletions/ Transfers	December 31, 2005
Airport Commission:				
Capital assets not being depreciated:				
Land	\$ 6,010,552	\$ -	\$ -	\$ 6,010,552
Construction in progress	331,970	-	(331,970)	-
Total capital assets not being depreciated	<u>6,342,522</u>	<u>-</u>	<u>(331,970)</u>	<u>6,010,552</u>
Capital assets being depreciated:				
Buildings and improvements	16,120,626	1,706,339	(8,402)	17,818,563
Machinery and equipment	1,081,630	47,104	(233,768)	894,966
Improvements other than buildings	5,967,971	854,397	(11,745)	6,810,623
Furniture and fixtures	841,911	25,519	(21,784)	845,646
Ramps, runways & taxiways	34,089,247	7,233	-	34,096,480
Total depreciable capital assets at historical cost	<u>58,101,385</u>	<u>2,640,592</u>	<u>(275,699)</u>	<u>60,466,278</u>
Less accumulated depreciation for:				
Buildings and improvements	5,320,838	399,239	(8,402)	5,711,675
Machinery and equipment	930,469	50,803	(227,581)	753,691
Improvements other than buildings	1,676,442	488,644	(11,745)	2,153,341
Furniture and fixtures	342,073	73,014	(21,060)	394,027
Ramps, runways & taxiways	19,734,158	1,592,704	-	21,326,862
Total accumulated depreciation	<u>28,003,980</u>	<u>2,604,404</u>	<u>(268,788)</u>	<u>30,339,596</u>
Capital assets being depreciated, net	<u>30,097,405</u>	<u>36,188</u>	<u>(6,911)</u>	<u>30,126,682</u>
Business-type activities capital assets, net- Airport Commission	<u>\$ 36,439,937</u>	<u>\$ 36,188</u>	<u>\$ (338,881)</u>	<u>\$ 36,137,234</u>

CITY OF FORT SMITH, ARKANSAS

Notes to Basic Financial Statements

December 31, 2005

Construction-in-progress is composed of the following:

	<u>Primary Appropriation</u>	<u>Expended to December 31, 2005</u>	<u>Committed</u>
Primary government:			
Governmental activities	\$ 50,050,086	\$ 26,643,562	\$ 23,406,524
Business-type activities:			
Water and sewer capital improvements	171,829,541	148,009,758	23,819,783
Solid waste capital improvements	<u>4,094,544</u>	<u>4,079,259</u>	<u>15,285</u>
Total	<u>\$ 225,974,171</u>	<u>\$178,732,759</u>	<u>\$ 47,241,592</u>

The City's governmental construction projects include major street and drainage improvements, Carol Ann Cross (CAC) Parks dam improvements, bikeway plan, and Tilles Park improvements. Funding is in place for these projects. The City does not anticipate additional financing with the water and sewer capital improvements in relation to the Lake Fort Smith water expansion project and distribution lines. The 2002 Water and Sewer Construction Revenue Bonds were issued for this purpose. The City anticipates additional financing for the sewer rehabilitation through the issuance of a combination of sales and use tax bonds and revenue bonds during 2006. Funding is available to complete phase 4 construction for the sanitary landfill.

Reconciliation of Capital Assets to Invested in Capital Assets Net of Related Debt on the Statement of Net Assets:

	<u>Governmental</u>	<u>Business-Type</u>		
		<u>Water and Sewer</u>	<u>Sanitation</u>	<u>Total</u>
Primary Government:				
Net book value	\$ 261,926,275	\$ 310,286,176	\$ 16,069,569	\$ 326,355,745
Current and non-current debt	(1,442,517)	(185,329,481)	(5,882,014)	(191,211,495)
Restricted assets-				
unspent bond proceeds	-	46,295,146	-	46,295,146
Invested in capital assets, net of related debt	<u>\$ 260,483,758</u>	<u>\$ 171,251,841</u>	<u>\$ 10,187,555</u>	<u>\$ 181,439,396</u>
Component Units:				
Net book value	\$ 492,819	\$ 38,361,487		
Current and non-current debt	-	(5,001,631)		
Invested in capital assets, net of related debt	<u>\$ 492,819</u>	<u>\$ 33,359,856</u>		

CITY OF FORT SMITH, ARKANSAS

Notes to Basic Financial Statements

December 31, 2005

(4) Long-Term Liabilities

(a) Changes in long-term liabilities for the year ended December 31, 2005 were as follows:

Primary Government-

	Balance December 31, 2004	Increases	Decreases	Balance December 31, 2005	Amounts Due in One year
Governmental Activities:					
Capital leases payable	\$ 891,735	\$ 1,229,489	\$ 678,707	\$ 1,442,517	\$ 647,943
Compensated Absences	1,578,694	307,954	57,989	1,828,659	76,411
Claims Payable- General Fund					
Legal	82,500	-	-	82,500	82,500
Employee insurance/workers' compensation	698,556	65,756	-	764,312	764,312
Other	195,711	-	68,311	127,400	-
Total governmental activities long-term liabilities	<u>\$ 3,447,196</u>	<u>\$ 1,603,199</u>	<u>\$ 805,007</u>	<u>\$ 4,245,388</u>	<u>\$ 1,571,166</u>
Business-Type Activities:					
Bonds payable-					
Revenue Bonds	\$ 144,755,000	\$ 24,935,000	\$ 22,895,000	\$ 146,795,000	\$ 7,670,000
Less issuance discounts	(331,095)	(49,135)	(272,179)	(108,051)	-
Add issuance premiums	3,440,375	210,195	272,414	3,378,156	-
Less deferrals on refunded issues	(1,421,569)	(1,629,426)	(654,247)	(2,396,748)	-
Revenue bonds payable, net	<u>146,442,711</u>	<u>23,466,634</u>	<u>22,240,988</u>	<u>147,668,357</u>	<u>7,670,000</u>
Sales tax bonds	58,270,000	-	15,275,000	42,995,000	9,420,000
Less issuance discounts	(207,219)	-	(63,195)	(144,024)	-
Add issuance premium	192,427	-	63,142	129,285	-
Sales tax bonds payable, net	<u>58,255,208</u>	<u>-</u>	<u>15,274,947</u>	<u>42,980,261</u>	<u>9,420,000</u>
Capital leases payable	298,315	629,427	364,865	562,877	352,496
Compensated absences	1,097,978	114,721	86,109	1,126,590	9,546
Claims Payable-Employee insurance and workers' comp.	384,504	-	35,111	349,393	349,393
Closure/postclosure landfill costs	2,395,269	186,279	-	2,581,548	-
Total other long-term liabilities	<u>4,176,066</u>	<u>930,427</u>	<u>486,085</u>	<u>4,620,408</u>	<u>711,435</u>
Total business-type activities long-term liabilities	<u>\$ 208,873,985</u>	<u>\$ 24,397,061</u>	<u>\$ 38,002,020</u>	<u>\$ 195,269,026</u>	<u>\$ 17,801,435</u>

Reconciliation of business-type activities to the government-wide statement of net assets:

Current Liabilities:	
Current portion of long-term debt	\$ 17,090,000
Noncurrent liabilities:	
Due within one year	711,435
Due in more than one year	<u>177,467,591</u>
Total business-type activities long term liabilities	<u>\$ 195,269,026</u>

The claims payable for employee insurance and workers' compensation are related to the internal service fund allocations. The internal service funds serve governmental funds as well as the two enterprise funds, therefore, the claims allocations are applied to governmental and business-type activities as applicable. For governmental activities, claims and compensated absences are generally liquidated by the General Fund.

CITY OF FORT SMITH, ARKANSAS

Notes to Basic Financial Statements

December 31, 2005

Changes in long-term liabilities for the year ended December 31, 2005 for the major enterprise funds were as follows:

	Balance December 31, 2004	Increases	Decreases	Balance December 31, 2005	Amounts Due in One year
Water and Sewer Fund:					
Bonds payable-					
Revenue Bonds	\$ 138,275,000	\$ 24,935,000	\$ 22,075,000	\$ 141,135,000	\$ 6,820,000
Less issuance discounts	(314,105)	(49,135)	(268,781)	(94,459)	-
Add issuance premiums	3,440,375	210,195	272,414	3,378,156	-
Less deferrals on refunded issues	(1,031,330)	(1,629,426)	(591,279)	(2,069,477)	-
Revenue bonds payable, net	<u>140,369,940</u>	<u>23,466,634</u>	<u>21,487,354</u>	<u>142,349,220</u>	<u>6,820,000</u>
Sales tax bonds-	58,270,000	-	15,275,000	42,995,000	9,420,000
Less issuance discounts	(207,219)	-	(63,195)	(144,024)	-
Add issuance premium	192,427	-	63,142	129,285	-
Sales tax bonds payable, net	<u>58,255,208</u>	<u>-</u>	<u>15,274,947</u>	<u>42,980,261</u>	<u>9,420,000</u>
Compensated absences	830,321	93,683	22,542	901,462	4,094
Total water and sewer fund	<u>\$ 199,455,469</u>	<u>\$ 23,560,317</u>	<u>\$ 36,784,843</u>	<u>\$ 186,230,943</u>	<u>\$ 16,244,094</u>
Sanitation Fund:					
Bonds payable-					
Revenue Bonds	\$ 6,480,000	\$ -	\$ 820,000	\$ 5,660,000	\$ 850,000
Less issuance discounts	(16,990)	-	(3,398)	(13,592)	-
Less deferrals on refunded issues	(390,239)	-	(62,968)	(327,271)	-
Revenue bonds payable, net	<u>6,072,771</u>	<u>-</u>	<u>753,634</u>	<u>5,319,137</u>	<u>850,000</u>
Capital leases payable	298,315	629,427	364,865	562,877	352,496
Compensated Absences	267,657	21,038	63,567	225,128	5,452
Closure/postclosure landfill costs	2,395,269	186,279	-	2,581,548	-
Other long-term liabilities	<u>2,961,241</u>	<u>836,744</u>	<u>428,432</u>	<u>3,369,553</u>	<u>357,948</u>
Total sanitation fund	<u>\$ 9,034,012</u>	<u>\$ 836,744</u>	<u>\$ 1,182,066</u>	<u>\$ 8,688,690</u>	<u>\$ 1,207,948</u>

Reconciliation of changes in long-term liabilities for the major enterprise funds to the statement of net assets for proprietary funds:

	Water and Sewer Fund	Sanitation Fund
Current Liabilities		
Revenue bonds payable	\$ 6,820,000	\$ 850,000
Sales tax bonds payable	9,420,000	-
Capital leases payable	-	352,496
Accrued vacation and sick leave	4,094	5,452
Non-Current Liabilities:		
Landfill closure and postclosure care	-	2,581,548
Revenue bonds, net	135,529,220	4,469,137
Sales and use tax bonds, net	33,560,261	-
Capital lease payable	-	210,381
Accrued vacation and sick leave	<u>897,368</u>	<u>219,676</u>
Total long-term liabilities for major enterprise funds	<u>\$ 186,230,943</u>	<u>\$ 8,688,690</u>

CITY OF FORT SMITH, ARKANSAS

Notes to Basic Financial Statements

December 31, 2005

Component Units:	Balance	Increases	Decreases	Balance	Amounts Due in One year
	December 31, 2004			December 31, 2005	
Business-type activities-					
Parking Authority:					
Bonds payable-					
Revenue Bonds	\$ 1,670,000	\$ -	\$ 495,000	\$ 1,175,000	\$ 85,000
Less issuance discounts	(24,538)	-	(1,887)	(22,651)	-
Bonds payable, net	1,645,462	-	493,113	1,152,349	85,000
Capital leases payable	28,980	-	10,334	18,646	10,966
Compensated absences	2,303	-	47	2,256	-
Total	1,676,745	-	503,494	1,173,251	95,966
Airport Commission:					
Bonds payable-					
Revenue Bonds	3,965,000	-	95,000	3,870,000	100,000
Less issuance discounts	(41,020)	-	(1,656)	(39,364)	-
Bonds payable, net	3,923,980	-	93,344	3,830,636	100,000
Notes payable	306,233	-	306,233	-	-
Unearned rent	719,305	-	90,117	629,188	90,117
Total	4,949,518	-	489,694	4,459,824	190,117
Total Component Units	\$ 6,626,263	\$ -	\$ 993,188	\$ 5,633,075	\$ 286,083

(b) Operating Leases

The City leases office space under a noncancelable operating lease. Total costs for the lease to the General Fund was \$171,600 for the year ended December 31, 2005. The future minimum lease payments for the lease are as follows:

2006	\$ 188,600
2007	192,000
2008	192,000
2009	<u>32,000</u>
Total	<u>\$ 604,600</u>

CITY OF FORT SMITH, ARKANSAS

Notes to Basic Financial Statements

December 31, 2005

(c) Capital Leases

The City and the Parking Authority, a component unit, have entered into lease agreements for the acquisition of capital assets in 2002, 2003, 2004 and 2005. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of future minimum lease payments as of the inception date in the statement of net assets.

The assets acquired through capital lease are as follows:

	Primary Government		Component Unit
	Governmental	Business-Type	Business-Type
	Activities	Activities- Sanitation	Activities
Buildings	\$ 303,585	\$ -	\$ -
Machinery and Equipment	2,418,596	1,164,184	50,835
Less accumulated depreciation	(356,643)	(132,338)	(33,890)
Total	\$ 2,365,538	\$ 1,031,846	\$ 16,945

The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2005 were as follows:

	Primary Government		Component Unit
	Governmental	Business-Type	Business-Type
	Activities	Activities- Sanitation	Activities
2006	\$ 683,602	\$ 377,516	\$ 11,779
2007	212,596	220,459	7,853
2008	212,596	-	-
2009	212,596	-	-
2010	212,596	-	-
2011	51,284	-	-
Total future minimum lease payments	1,585,270	597,975	19,632
Less interest	(142,753)	(35,098)	(986)
Present value of future minimum lease payments	\$ 1,442,517	\$ 562,877	\$ 18,646

CITY OF FORT SMITH, ARKANSAS

Notes to Basic Financial Statements

December 31, 2005

(d) **Notes Payable**
Component Unit-Business-Type
Airport Commission

In November 2002, the Airport Commission executed a promissory note with the City for financing the construction costs and the operations of the passenger car parking lot facility at the airport terminal. The promissory note is held by BancorpSouth Bank. Under the agreement with the City, the Airport Commission will make monthly payments on the note directly to the bank.

The note payable to the City was payable in monthly installments of \$9,398 including interest at the current rate of 4.84%. The note was redeemed in 2005 with a principal payment of \$306,233.

In accordance with Amendment 78 of the Arkansas Constitution, Arkansas state statutes limit the amount of short-term financing, including capital leases, the City may have in any fiscal year to five percent (5%) of the assessed valuation of property within the City. The limit applies to the reporting entity. The total short-term financing as of December 31, 2005 was \$2,024,040. The limit as of December 31, 2005 was \$53.8 million, therefore management believes the City is in compliance with state statutes for short-term financing at December 31, 2005.

CITY OF FORT SMITH, ARKANSAS

Notes to Basic Financial Statements

December 31, 2005

(e) ***Revenue Bonds and Sales and Use Tax Bonds- Business-Type Activities***

Revenue bonds and sales and use tax bonds outstanding at December 31, 2005, are comprised of the following individual issues:

Water and Sewer:

\$26,415,000 of Series 1999 Water and Sewer System Revenue Bonds; due in annual installments at varying amounts through October 1, 2009, with interest ranging from 4.7% to 5% payable semiannually.	\$4,555,000
\$80,000,000 of Series 2001 Sales and Use Tax Bonds due in annual installments at varying amounts through December 1, 2010; interest ranging from 3.9% to 4.4% payable semiannually	42,995,000
\$82,590,000 of Series 2002A Water and Sewer Refunding and Construction Revenue Bonds; \$69,350,000 of which are serial bonds due in annual installments at varying amounts through October 1, 2019 with interest ranging from 5% to 5.25% payable semi-annually; \$13,240,000 of which are term bonds due October 1, 2021 with an interest rate of 5% payable semiannually	76,615,000
\$7,835,000 of Series 2002B Water and Sewer Refunding and Construction Revenue Bonds; due in annual installments at varying amounts through October 1, 2012 with interest ranging from 2.25% to 5.25% payable semiannually	7,760,000
\$21,330,000 of Series 2002C Water and Sewer Refunding Revenue Bonds due in annual installments at varying amounts through October 1, 2023 with interest ranging from 3% to 5.25% payable semiannually	21,330,000
\$8,700,000 of Series 2004 Water and Sewer Revenue Refunding Bonds; due in annual installments at varying amounts through October 1, 2009; interest ranging from 2% to 4% payable semiannually	5,940,000
\$17,605,000 of Series 2005A Water and Sewer Refunding Revenue Bonds; due in annual installments at varying amounts through October 1, 2019 with interest ranging from 3.25% to 4.25% payable semiannually	17,605,000
\$7,330,000 of Series 2005B Water and Sewer Revenue Bonds; due in annual installments of varying amounts through October 1, 2025 with interest ranging from 4% to 4.375% payable semiannually	7,330,000

Sanitation:

\$3,055,000 of Series 1998 Solid Waste Refunding Revenue Bonds due in annual installments at varying amounts through December 1, 2009, with interest ranging from 3.65% to 4.55% payable semiannually	1,245,000
\$6,305,000 of Series 2002 Solid Waste Revenue Refunding Bonds due in annual installments at varying amounts through December 1, 2011, with interest ranging 1.4% to 4.05% payable semiannually	<u>4,415,000</u>

Bonds Outstanding, December 31, 2005	189,790,000
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CITY OF FORT SMITH, ARKANSAS

Notes to Basic Financial Statements

December 31, 2005

Less:

Unamortized bond premium, net	3,255,366
Deferred amount on refunding	<u>(2,396,748)</u>
Net bonds outstanding, December 31, 2005	<u>\$ 190,648,618</u>
Revenue bonds, net	\$ 147,668,357
Sales and use tax bonds, net	<u>42,980,261</u>
	<u>\$ 190,648,618</u>

Water and Sewer-

On September 21, 1999, the City issued \$26,415,000 in Water and Sewer System Revenue Bonds, Series 1999, to be used for the first phase of the Lake Fort Smith water supply expansion project, improvements to the Lee Creek water impoundment, and improvements to the existing water transmission, storage, and distribution system in accordance with the City's Capital Improvement Plan. The Series 1999 Bonds were issued as additional bonds under the Water and Sewer Refunding and Construction Revenue Bonds, Series 1994, ordinance on a parity of security with the Series 1994 Bonds.

The Series 1999 Bonds may be redeemed at the option of the City, on and after October 1, 2009, in whole on any date or in part on any interest payment date, from any source, in inverse order of maturity at a redemption price equal to the principal amount being redeemed plus accrued interest to the date of redemption. On June 1, 2005, \$16,375,000 of the 1999 Bonds were refunded with the issuance of the 2005A Water and Sewer Revenue Refunding Bonds.

On February 5, 2002 and October 15, 2002, the City issued \$111,755,000 Water and Sewer Refunding and Construction Revenue Bonds. The bonds were issued in three series. The 2002A Bonds were issued in the amount of \$82,590,000 for the purpose of financing a portion of the costs of the acquisition, construction, and equipping of extensions, betterments, and improvements to the City's water system with \$74.4 million of the issue allocated to finance a portion of the Lake Fort Smith water supply expansion project. The 2002B Bonds were issued in the amount of \$7,835,000 to advance refund \$1.1 million in principal amount of the 1994 Bonds to be refunded maturing October 1, 2009 and \$6.54 million in principal amount of the 1994 Bonds to be refunded maturing October 1, 2012. The refunded debt has been defeased and the related liabilities have been removed from the Water and Sewer Fund statement of net assets. The reacquisition price exceeded the carrying amount of the old debt by \$589,000. The unamortized amount is netted against the new debt and is being amortized over the refunded debt's life using the straight-line method, which approximates the effective interest method. The remaining unamortized deferred amount on refunding was \$274,781 as of December 31, 2005. The City completed the advance refunding to reduce its total debt service payments over the next ten and one-half (10 ½) years by \$378,570 and to obtain an economic gain of \$298,355. The 2002C Bonds were issued in the amount of \$21,330,000 to provide financing for a portion of the Lake Fort Smith water supply expansion project.

On January 8, 2004, the City issued \$8,700,000 Water and Sewer Revenue Refunding Bonds, Series 2004. The 2004 Bonds were issued to refund the remaining Series 1994 Water and Sewer Refunding and Construction Revenue Bonds which were redeemed at 101% on April 1, 2004. The reacquisition prices exceeded the carrying amounts of the old debt by \$828,717. The unamortized amount is netted against the new debt and is being amortized over the refunded debt's life using the straight-line method. The remaining unamortized deferred amount on refunding was \$527,365 as of December 31, 2005. The City completed the refunding to reduce its total debt service payments over the next six (6) years by \$585,727 and to obtain an economic gain of \$529,462.

CITY OF FORT SMITH, ARKANSAS

Notes to Basic Financial Statements

December 31, 2005

On June 1, 2005, the City issued \$17,605,000 Water and Sewer Revenue Refunding Bonds, Series 2005A. The 2005A Bonds were issued to refund \$16,375,000 of outstanding Series 1999 Water and Sewer System Revenue Bonds which will be redeemed on October 1, 2009. The reacquisition price exceeded the carrying amount of the old debt by \$1,629,426. The unamortized amount is netted against the new debt and is being amortized over the refunded debt's life using the straight-line method. The remaining unamortized deferred amount on refunding was \$1,267,331 as of December 31, 2005. The City completed the refunding to reduce its total debt service payments over the next five (5) years by \$861,756 and to obtain an economic gain of \$730,371.

On December 21, 2005, the City issued \$7,330,000 Water and Sewer Revenue Bonds, Series 2005B. The 2005B Bonds were issued to purchase a portion of the South Sebastian County Water Users Association water system and to provide water services to the southern areas of Fort Smith. The Series 2005B Bonds were issued as additional bonds on a parity of security with the 1999, 2002, 2004 and 2005A Bonds.

The Series 1999, 2002, 2004 and 2005 Revenue Bonds are collateralized by revenue of the water and sewer system and the various special funds established by the authorizing bond ordinances. The ordinances provide that the revenue of the system is to be used first to pay operating and maintenance expenses of the system, second to establish and maintain the revenue bond funds and third to pay the cost of replacements made necessary by the depreciation of the system. Any remaining revenues may then be used for redemption of the bonds prior to maturity, as discussed previously, for the purchase of bonds at a price not to exceed par and accrued interest, for construction, extension, betterments and improvements to the system, or for any other lawful purpose.

The ordinances also contain provisions which, among other items, restrict the issuance of additional revenue bonds unless the special funds noted above contain the required amounts and certain financial ratios are met. As of December 31, 2005, management believes the City is in compliance with all applicable requirements.

Restricted accounts required by the bond ordinances are as follows:

Bond Retirement- The City is required to restrict funds for the payment of principal, interest, and trustee and paying agents' fees up to a maximum of \$2,179,462 related to the Series 1999 Bonds, \$11,156,226 related to the Series 2002 Bonds, \$870,000 related to the Series 2004 Bonds, \$1,760,000 related to the 2005A Bonds, and \$727,354 related to the 2005B Bonds. The City held surety bonds valued at \$2,179,462, \$11,156,226, \$870,000, \$1,760,500 and \$727,354 at December 31, 2005 for this purpose.

Asset Replacement- 3% of the gross revenues of the water and sewer system for the then preceding month plus \$5,000 per month until the sum of \$500,000 has been accumulated in the Depreciation Fund. Amounts are to be used for replacements made necessary by the depreciation of the system. The City has accumulated \$500,000 for asset replacement as of December 31, 2005.

On June 7, 2001, the City issued \$46,000,000 Sales and Use Tax Bonds and on October 17, 2001 issued \$34,000,000 Sales and Use Tax Bonds. The bonds are payable solely from collections from a one-half percent (½%) local sales and use tax levied by the City beginning May 1, 2001. With the redemption of the 1997 Sales and Use Tax Bonds on June 1, 2004, the repayment of the bonds is being paid by collections of the one-half percent (½%) local sales and use tax levied by the City on January 1, 1998 for the Series 1997 Bonds. Beginning in March 2004, the sales tax collections from the one-half percent tax originally pledged to the 1997 Bonds were deposited into the Series 2001 bond account. The issuance of the bonds and the pledging of the taxes to the payment of and interest on the Bonds were approved at a special election held March 20, 2001.

CITY OF FORT SMITH, ARKANSAS

Notes to Basic Financial Statements

December 31, 2005

The 2001 Bond principal is allocated at \$30,000,000 for wastewater improvements including particularly, without limitation, the expansion of wastewater treatment plants and any land acquisition therefore. The remaining \$50,000,000 principal is allocated for water improvements, including extensions, betterments, and improvements to the City's water system,, including particularly, without limitation, the Lake Fort Smith water supply expansion project, related road, and state park relocation improvements and land acquisition for buffer zone and other purposes related to the water supply expansion project.

The 2001 Bonds are subject to extraordinary redemption from surplus tax receipts and proceeds of the Bonds not needed for purposes intended at a purchase price equal to the principal amount being redeemed plus accrued interest to the redemption date. During 2005 the City paid principal due of \$5,145,000 and called \$10,130,000 bonds prior to maturity.

Bond Retirement- The City is required to maintain a debt service reserve equal to \$4,000,000 during the life of the 2001 Bonds. The City held investments equal to this amount in the Water and Sewer Fund at December 31, 2005.

Sanitation-

In November 1994, the City issued \$4,560,000 in Solid Waste Refunding Revenue Bonds for the purpose of providing a portion of the funds to construct the second phase of the City's landfill. In June 1995, the City issued \$9,185,000 of Solid Waste Refunding and Construction Bonds to redeem the previously outstanding 1993 Temporary Solid Waste Revenue Bonds and to provide financing for future expansion of the Municipal Solid Waste Landfill. In April 1998, the City issued \$3,055,000 of Solid Waste Refunding Revenue Bonds to advance refund the outstanding Series 1994 Solid Waste Revenue Bonds. The net proceeds provided by the refunding debt were issued to purchase securities that were placed in an irrevocable trust, which were used to redeem the debt on December 1, 2001, at 101%. The refunded debt is defeased and the related liabilities have been removed from the Sanitation Fund statement of net assets. The unamortized amount is netted against the new debt and is being amortized over the refunded debt's life using the straight-line method, which approximates the effective interest method. The remaining unamortized deferred amount on refunding was \$101,076 as of December 31, 2005.

On September 3, 2002, the City issued \$6,305,000 Solid Waste Refunding Revenue Bonds. The Series 2002 Bonds were issued to refund the outstanding Series 1995 Bonds. The 1995 Bonds were redeemed at 101% on December 1, 2002. The refunded debt is considered defeased and the related liabilities have been removed from the Sanitation Fund statement of net assets. The reacquisition price exceeded the carrying amount of the old debt by \$376,991. The unamortized amount is netted against the new debt and is being amortized over the refunded debt's life using the straight-line method, which approximates the effective interest method. The remaining unamortized deferred amount on refunding was \$226,195 as of December 31, 2005. The City completed the current refunding to reduce its total debt service payments over the next ten (10) years by \$1,020,312 and to obtain an economic gain of \$467,675.

The Series 1998 Solid Waste Bonds may be redeemed at the option of the City on or after December 1, 2003, in whole on any date or in part on any interest payment date, in inverse order of maturity at the redemption price equal to the principal amount being redeemed plus accrued interest to the redemption date.

The Series 1998 and 2002 Revenue Bonds are collateralized by the revenue of the solid waste system and the various special funds established by the authorizing ordinances. The ordinances provide that the revenue of the system is to be used first to pay operating and maintenance expenses of the system, second to establish and maintain the revenue bond funds, and third to pay the cost of replacements made necessary by the depreciation of the system. Any remaining revenues may then be used for redemption of the bonds prior to maturity, as discussed previously, for the purchase of bonds not to exceed par and accrued interest, for construction, betterments, and improvements to the system or for any other lawful use.

CITY OF FORT SMITH, ARKANSAS

Notes to Basic Financial Statements

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The ordinances also contain provisions which, among other items, restrict the issuance of additional revenue bonds unless the special funds noted above contain the required amounts and certain financial ratios are met. As of December 31, 2005, the City is in compliance with all applicable requirements. Restricted accounts required by the bond ordinance are as follows:

Bond Retirement- The City is required to restrict funds for the payment of principal, interest and trustee and paying agents' fees of \$726,731 as of December 31, 2005. Of this amount, \$175,121 is related to the Series 1998 Bonds and \$551,610 is related to the Series 2002 Bonds. The City held investments equal to these amounts in the Sanitation Fund at December 31, 2005.

Maturity Schedule

Aggregate debt service requirements at December 31, 2005 for business-type activity related bonds were as follows:

	<u>Water and Sewer</u>		<u>Sanitation</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2006	\$ 16,240,000	\$ 8,496,381	\$ 850,000	\$ 216,403
2007	16,915,000	7,867,533	875,000	187,828
2008	17,660,000	7,149,105	910,000	156,227
2009	15,915,000	6,398,916	945,000	121,337
2010	13,805,000	5,684,845	1,020,000	83,220
2011-2015	42,325,000	21,036,978	1,060,000	42,930
2016-2020	47,080,000	10,361,379	-	-
2021-2025	14,190,000	1,081,237	-	-
Total	<u>\$184,130,000</u>	<u>\$ 68,076,374</u>	<u>\$5,660,000</u>	<u>\$ 807,945</u>

	<u>Total Business-Type Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2006	\$ 17,090,000	\$ 8,712,784
2007	17,790,000	8,055,361
2008	18,570,000	7,305,332
2009	16,860,000	6,520,253
2010	14,825,000	5,768,065
2011-2015	43,385,000	21,079,908
2016-2020	47,080,000	10,361,379
2021-2025	14,190,000	1,081,237
Total	<u>\$189,790,000</u>	<u>\$ 68,884,319</u>

(f) *Component Units Revenue Bonds-Business-Type Activities*

Airport Commission-

On September 9, 1999, the Airport Commission issued \$5,290,000 of City of Fort Smith, Arkansas Airport Refunding and Improvement Revenue Bonds, Series 1999, dated October 1, 1999. At December 31, 2005, bonds payable were \$3,870,000. The bonds are due in annual installments at varying amounts through October 1, 2026, with interest ranging from 4.80% to 6.25%, payable semiannually. The bonds outstanding net of amortized discount at December 31, 2005, were \$3,830,636.

CITY OF FORT SMITH, ARKANSAS

Notes to Basic Financial Statements

December 31, 2005

Maturities of revenue bonds payable for succeeding years are as follows:

	<u>Principal</u>	<u>Interest</u>
2006	\$ 100,000	\$ 234,550
2007	105,000	229,250
2008	110,000	223,580
2009	115,000	217,530
2010	125,000	211,090
2011-2015	735,000	940,028
2016-2020	985,000	688,190
2021-2025	1,330,000	342,069
2026	<u>265,000</u>	<u>16,564</u>
Total payments	3,870,000	<u>\$ 3,102,851</u>
Less unamortized bond discount	<u>(39,364)</u>	
Net bonds outstanding, December 31, 2005	<u>\$3,830,636</u>	

The Series 1999 Bonds are subject to optional, extraordinary, and mandatory sinking fund redemption. The Commission may prepay all or a portion of the bonds in inverse order of maturity in whole at any time, or in part on any interest payment date on or after October 1, 2009, at a redemption price equal to the principal amount being redeemed from proceeds not needed for the purposes intended on any interest payment date, in whole or in part, at a redemption price equal to the principal amount being redeemed plus accrued interest to the redemption date, in inverse order of maturity. On October 1, 2003, the Airport Commission redeemed \$1,125,000 of the Series 1999 Bonds. This resulted in the Airport Commission paying the final three years of bond payments early which reduced the maturity date from October 1, 2029 to October 1, 2026. To the extent not previously redeemed, the Series 1999 Bonds maturing on October 1, 2021, are subject to mandatory sinking fund redemption. The bond covenants require the maintenance of the following restricted account:

Bond Retirement- The Airport Commission is required to maintain funds for the payment of principal interest, and trustee and paying agents' fees of \$493,376 as of December 31, 2005. The Airport Commission held investments equal to this amount at December 31, 2005.

Parking Authority-

On November, 1998, the Parking Authority issued \$2,025,000 of Parking Facilities and Refunding and Improvement Revenue Bonds, Series 1998. Together with \$675,000 of existing funds, approximately \$2,072,000 of the net proceeds were being used to acquire and improve off-street parking facilities, including necessary demolition, and \$849,000 was used to redeem \$825,000 of Series 1999 Bonds on January 1, 1999. The Parking Facilities Refunding and Improvement Revenue Bonds are collateralized by the revenues derived from the operations of parking facilities and by the revenues derived from parking meters located in the City. The restricted account required by the bond ordinance is as follows:

Bond Retirement- The Parking Authority is required to maintain funds for the payment of principal, interest, and trustee and paying agents' fees of \$69,620. As of December 31, 2005, the Parking Authority held investments equal to this amount.

CITY OF FORT SMITH, ARKANSAS

Notes to Basic Financial Statements

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The Series 1998 Bonds are subject to optional, extraordinary, and mandatory sinking fund redemption. The Authority may prepay all or a portion of the bonds in inverse order of maturity in whole at any time, or in part on any interest payment date on or after December 1, 2003, at a redemption price equal to the principal amount being redeemed plus accrued interest to the redemption date. The Series 1998 Bonds must be redeemed from proceeds not needed for the purposes intended on any interest payment date, in whole or in part, at a redemption price equal to the principal amount being redeemed plus accrued interest to the redemption date, in inverse order of maturity. To the extent not previously redeemed, the Series 1998 Bonds with a maturity on December 1, 2015 is subject to mandatory sinking fund redemption. On June 1, 2005, \$415,000 of outstanding 1998 Bonds were redeemed. The redemption was accomplished with the sale of property to a hotel developer.

At December 31, 2005, Parking Authority Revenue Bonds payable was \$1,175,000. The bonds are due in annual installments at varying amounts through December 1, 2017, with interest ranging from 3.80% to 4.75%, payable semiannually. The bonds outstanding net of unamortized discount at December 31, 2005, was \$1,152,349.

Debt service requirements for the bonds at December 31, 2005 were as follows:

	<u>Principal</u>	<u>Interest</u>
2006	\$ 85,000	\$ 52,810
2007	90,000	49,240
2008	90,000	45,415
2009	95,000	41,545
2010	100,000	37,412
2011-2015	575,000	115,248
2016-2017	<u>140,000</u>	<u>7,125</u>
Total payments	\$1,175,000	<u>\$ 348,795</u>
Less unamortized bond discount	<u>(22,651)</u>	
Net bonds outstanding, December 31, 2005	<u>\$ 1,152,349</u>	

(g) *Applicability of Federal Arbitrage Regulations*

Debt issuances of the City and various Authorities issued after the Tax Reform Act of 1986 are subject to the federal arbitrage regulations. The arbitrage rebate regulations require that all earnings from the investment of gross proceeds of a bond issue in excess of the amount that could have been earned had the yield on the investment been equal to the yield on the bonds be remitted to the federal government. These rules carry strict penalties for noncompliance including taxability of interest retroactive to the date of the issue. City management believes the City is in compliance with these rules and regulations.

CITY OF FORT SMITH, ARKANSAS

Notes to Basic Financial Statements

December 31, 2005

(h) *Conduit Debt Obligations*

From time to time, the City has issued various bonds to provide financial assistance to private-sector entities for the acquisition and construction of industrial and commercial facilities deemed to be in the public interest. The bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Upon repayment of the bonds, ownership of the acquired facilities transfers to the private-sector entity served by the bond issuance. Neither the state, the City, nor any political subdivision thereof is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported in the accompanying financial statements.

As of December 31, 2005, there were two series of Industrial Development Revenue Bonds outstanding with an aggregate principal amount payable of \$3,750,000, one series of Fair and Exhibition Facilities Bonds outstanding with an aggregate principal amount payable of \$2,200,000, and one series of Tourism Bonds outstanding with an aggregate principal payable of \$2,200,000.

(5) **Risk Management**

The City is exposed to various risks of loss related to the City's self-insurance of workers' compensation and health and other medical benefits provided to employees and retirees, and their dependants and beneficiaries. The City accounts for these programs through the Employee Insurance Fund and Workers' Compensation Fund. Each fund is an internal service fund. In addition, the City limits property and casualty losses and manages risk through the purchase of insurance policies with several different carriers. The City has not recognized any settlements that exceeded insurance coverage during the past three years.

All funds of the City participate in the City's insurance programs and make payments to the respective self-insurance funds based on estimates of the amounts needed to pay prior and current year claims and to establish a reserve for future claims. The Airport Commission participates in the City's health plans by making contributions as required by the City. At December 31, 2005 the net assets were \$886,461 and \$52,852 in the Employee Insurance and Workers' Compensation Funds, respectively. The claims liability balances of \$946,815 and \$166,890 reported in the Employee Insurance and Workers' Compensation Funds, respectively, are based on the requirements of GASB Statement 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. The claims liability includes the effect of specific incremental claims, adjustment expenses, and if probable and material, salvage and subrogation. These liabilities include accruals for claims incurred but not reported, based upon the City's historical claims rate. These liabilities are the City's best estimate based on available information. Changes in the reported liabilities during 2005 are detailed on the following page:

CITY OF FORT SMITH, ARKANSAS

Notes to Basic Financial Statements

December 31, 2005

	<u>Employee Insurance</u>	<u>Workers' Compensation</u>
Self-insurance liability, December 31, 2003	\$ 712,611	\$ 238,293
Current year claims and changes in estimate	4,902,601	401,035
Claim payments	<u>(4,797,282)</u>	<u>(374,198)</u>
Self-insurance liability, December 31, 2004	817,930	265,130
Claims and changes in estimate	5,737,029	250,677
Claim payments	<u>(5,608,144)</u>	<u>(348,917)</u>
Self-insurance liability, December 31, 2005	<u>\$ 946,815</u>	<u>\$ 166,890</u>

(6) Deferred Compensation Plan

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Plan is administered by International City Management Association Retirement Corporation (ICMARC). All assets and income of the trust are for the exclusive benefit of eligible employees and their beneficiaries. The City does not have any fiduciary responsibility or administrative duties relating to the deferred compensation plan other than remitting employees' contributions to the trustees. Accordingly, the City has not presented the assets and liabilities from the plan in these basic financial statements. Deferred compensation investments are held by outside trustees. Plan investments are chosen by the individual (employee) participant and include mutual funds whose focus is on stocks, bonds, treasury securities, money market-type investments or a combination of these.

The Plan, available to all permanent City employees, permits them to defer until future years up to 25% of annual gross earnings not to exceed \$14,000. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

(7) Pension Plans

(a) Public Employees Retirement System

Plan Description

Effective April 1, 1997, the Public Employees' Retirement System (PERS) was converted to a money purchase retirement plan, a defined contribution plan, that is qualified under Section 401(a) of the Internal Revenue Code (the 401(a) Plan). The International City Management Association Retirement Corporation (ICMARC) serves as administrator of the 401(a) Plan. All full-time, non-uniformed employees with the exception of the two district judges and the District Court Clerk are covered by the 401(a) Plan. Each participant has a plan account to which the contributions are made and each participant manages their account by selecting various investments options offered by ICMARC. Plan benefits are base upon the total amount of money in an individual's account at retirement. Plan provisions and contribution rates are established by the 401(a) Plan agreement between the Board and ICMARC. Approval from both the Board and ICMARC is required for 401(a) Plan amendments. Employees make no contributions to the 401(a) Plan; however, the City makes contributions equal to 10% of each covered employees' earnings. Employer contributions to the PERS plan totaled approximately \$1,948,000 for 2005.

CITY OF FORT SMITH, ARKANSAS

Notes to Basic Financial Statements

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The present value of each PERS active member at March 31, 1997, was transferred to ICMARC in the participant's name. An annuity contract from an insurance company was purchased to continue to provide benefit payments to beneficiaries of PERS. The remaining balance of approximately \$1,700,000 was transferred to the Employee Insurance Fund to provide for future employee benefits. Additionally, the contract was purchased whereby all beneficiaries will receive a 3% cost of living adjustment every three years beginning January 1, 1998. The present value of the deferred members of PERS may be withdrawn or rolled into a qualified plan at the member's choice.

District Judges and Court Clerk's Retirement System

On January 1, 2005, the district judges became members of the Arkansas District Judges Retirement System (ADJRS). ADJRS is administered by the state as a defined benefit plan. Employer contributions for 2005 were 18% of covered payroll. The judges' contribution rates was 5% for 2005.

On January 1, 2005, the district court clerk became a member of the Arkansas Public Employees' Retirement System (APERS). APERS is administered by the state as a defined benefit plan. Employer contributions were 12.54% of covered payroll.

Covered payroll for the judges and clerks was \$241,937 for the fiscal year ended December 31, 2005. There is one retired clerk receiving benefits from APERS.

(b) *Fire Relief and Pension Plan and Police Relief and Pension Plan (the Old Plans)*

The Fire Relief and Pension Plan and the Police Relief and Pension Plan (the Old Plans) are agent multi-employer defined benefit pension plans for employees of the Fire and Police Department who were hired prior to January 1, 1983. The Old Plans were established in accordance with Arkansas statutes and were closed, by state law, to new employees effective January 1, 1983. On September 20, 1990, the City entered into an agreement with the Arkansas local police and fire (LOPFI) retirement system whereby LOPFI assumed responsibility for administration and a portion of the obligation of the Old Plans pursuant to Act 364 of 1981, as amended, and Act 655 of 1983 of the General Assembly of the State of Arkansas. Per the Agreement between the City and LOPFI, the City will contribute an actuarially determined rate sufficient to support the current plan benefit levels and fund the Old Plan's net pension obligation over a 40-year period. The Old Plan's benefit structure remains unchanged under the administration by LOPFI. The Old Plans do not issue separate stand-alone financial statements.

Members and participants of the old plans at December 31, 2005 are:

	<u>Fire</u>	<u>Police</u>
Active Members:		
Vested	60	28
Nonvested	-	13
Retirees and beneficiaries	<u>130</u>	<u>107</u>
Total	<u><u>190</u></u>	<u><u>148</u></u>

Pension Benefits

Pension benefit provisions and all other requirements, including vesting, are established by state statute. Participants in the Old Plans became eligible for membership as of the first date of employment. Members of the Old Plans who retire with 20 years of credited service are entitled to a retirement benefit payable monthly for life equal to one-half of the participants's annual salary. Employees become vested after 20 years of service.

CITY OF FORT SMITH, ARKANSAS

Notes to Basic Financial Statements

December 31, 2005

Contributions Required and Contributions Made

Arkansas state statutes require yearly contributions at a level percentage of covered payroll sufficient to cover the costs of benefit commitments made to participants for their service rendered in that year and, over a reasonable period of time, and to fully cover the unfunded costs of benefit commitments for services previously rendered. The City is required to contribute the actuarially required normal costs and amortized costs of the unfunded actuarial accrued liability. In addition, active employees are required to make contributions equal to 6% of their gross salary to the Old Plans. The contributions for the 2005 plan year were based upon the December 31, 2003, actuary report.

The actuarially required contributions rate as of December 31, 2005, 2004, and 2003, and amounts required by the City and active participants of the Old Plans for 2005, 2004, and 2003 were as follows:

	Fire Plan			Police Plan		
	2005	2004	2003	2005	2004	2003
Employer actuarially required contribution rates	28.88%	25.49%	25.24%	20.40%	18.93%	18.00%
Employer contributions as a percentage of annual covered payroll	28.88%	25.49%	25.24%	20.40%	18.93%	18.00%
Employer contributions to LOPFI \$	230,350	\$ 219,263	\$ 251,082	\$ 81,628	\$ 75,697	\$ 102,164
Annual Pension Cost (APC) \$	230,350	\$ 219,263	\$ 251,082	\$ 81,628	\$ 75,697	\$ 102,164
Percentage of APC contributed	100%	100%	100%	100%	100%	100%
Net pension obligation	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

The following actuarial methods and assumptions were used to compute the contribution rates for the year ended December 31, 2005, for the Old Plans:

<u>Old Fire and Police Plans</u>	
Valuation date	December 31, 2003
Cost method	Entry age
Asset valuation method	Reported book value adjusted to partially recognize the difference between book value and market value
Amortization method	Level percentage
Amortization period	30 years open
Assumptions:	
Inflation rate	4.0%
Investment rate of return	8.0%
Projected salary increases	4.0%
Post-retirement benefit increases	3.0%

CITY OF FORT SMITH, ARKANSAS

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(c) ***Arkansas Local Police and Fire Retirement System (the New Plans)***

Employees of the City's Fire and Police Department hired subsequent to December 31, 1983, are covered by the state-administered Arkansas Local Police and Fire Retirement System (the New Plans), an agent multiple-employer plan. The New Plans are defined as benefit plans which were established by Arkansas statutes. The New Plans do not issue separate stand-alone financial statements.

Members and participants of the new plans at December 31, 2005 are:

	<u>Fire</u>	<u>Police</u>
Active Members:		
Vested	80	95
Nonvested	33	61
Retirees and beneficiaries	<u>1</u>	<u>3</u>
Total	<u>114</u>	<u>159</u>

Pension Benefits

Participants who retire at or after age 55 with 20 years of credited service are entitled to retirement benefits payable annually for life equal to 2.5% of final average pay for each year of credited service prior to January 1, 2004. The City adopted Benefit Program 2 for members of the new plans effective January 1, 2004. Benefit Program 2 provides retirement benefits payable annually for life equal to 3% of final average pay for each year of credited service that began January 1, 2004 and after. The total benefit cannot exceed 80% of final average pay. Benefits are fully vested after ten years.

Contributions Required and Contributions Made

State statutes require active participants of the New Plans to make contributions equivalent to 6% of their gross salary and their contributions are 100% vested. The City is also required by state statute to contribute the remaining amounts necessary to pay benefits when due, as determined by the New Plans' administrator, as well as fund the Old Plans' unfunded actuarial accrued liability over a 40-year period.

The actuarially computed contribution rates as of December 31, 2005, 2004, and 2003, and amounts required by the City and active participants of the New Plans for 2005, 2004, and 2003 were as shown on the following page:

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	Fire Plan			Police Plan		
	2005	2004	2003	2005	2004	2003
Employer actuarially required contribution rates	28.88%	25.49%	25.24%	20.40%	18.93%	18.00%
Employer contributions as a percentage of annual covered payroll	28.88%	25.49%	25.24%	20.40%	18.93%	18.00%
Employer contributions to LOPFI	\$ 1,391,266	\$ 1,154,287	\$ 1,072,040	\$ 1,254,364	\$ 1,090,826	\$ 983,112
Annual Pension Cost (APC)	\$ 1,391,266	\$ 1,154,287	\$ 1,072,040	\$ 1,254,364	\$ 1,090,826	\$ 983,112
Percentage of APC contributed	100%	100%	100%	100%	100%	100%
Net pension obligation	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

The following actuarial methods and assumptions were used to compute the contribution rates for the year ended December 31, 2005, for the New Plans:

	<u>New Fire and Police Plans</u>
Valuation date	December 31, 2003
Cost method	Entry age
Asset valuation method	Reported book value adjusted to partially recognize the difference between book value and market value
Amortization method	Level percentage
Amortization period	30 years open
Assumptions:	
Inflation rate	4.0%
Investment rate of return	8.0%
Projected salary increases	4.0%
Post-retirement benefit increases	3.0% every other year

CITY OF FORT SMITH, ARKANSAS

Notes to Basic Financial Statements

December 31, 2005

(8) Commitments and Contingencies

(a) *Litigation*

In the course of business, a number of claims and lawsuits arise from individuals seeking compensation for personal injury, death, and/or property damage resulting from accidents occurring in the City. In addition, the City has been named as a defendant in a number of lawsuits relating to personnel and contractual matters. Management does not believe that the outcome of these claims will have a material adverse effect on the City's financial position. The City appropriates funds necessary to meet settlements and awards. The City accrues a liability when it is incurred and when the contingency is probable and reasonably estimable.

(b) *Contingencies*

The City has received federal and state financial awards in the form of grants and entitlements that are subject to review and audit by the grantor agencies. Such audits could result in requests for reimbursement by the grantor agency for expenditures disallowed under terms and conditions specified in the grant agreements. In the opinion of City management such disallowances, if any, will not be significant.

For the past several years, the City has been subject to various administrative orders issued by the Environmental Protection Agency (EPA) with reference to the City's sanitary sewer system in order to adequately handle wet weather flows. On September 9, 2005, the EPA issued an additional administrative order. The latest order specifically orders the removal of several planned and constructed overflow sites in the City's sanitary sewer system which are necessary to prevent harm resulting from the overflows during the wet weather conditions. The City has been notified by the Department of Justice that the EPA has referred the City's file to the Department of Justice. The City is communicating with the Department of Justice in an effort to resolve the administrative issues. The City believes this issue will be resolved in a favorable manner.

On December 31, 2005, the City purchased water system facilities from the South Sebastian County Water Users Association (South Sebastian) for the sum of \$3.2 million. The sale was part of a settlement agreement between the City and South Sebastian. The agreement also sets forth a payment of \$30,000 per month for sixty (60) months from the City to South Sebastian beginning January 1, 2006. This monthly payment is to be made from the net collections from the service area acquired by the City and is to be used by South Sebastian to reduce its debt service.

(9) Individual Fund Disclosures

Interfund receivables and payables as of December 31, 2005 are as follows:

<u>Fund</u>	<u>Receivables</u>	<u>Payables</u>
Governmental Funds:		
General Fund	\$ 18,062	\$ -
Special Revenue Funds	-	18,460
Internal Service Funds	<u>398</u>	<u>-</u>
Total	<u>\$ 18,460</u>	<u>\$ 18,460</u>

CITY OF FORT SMITH, ARKANSAS

Notes to Basic Financial Statements

December 31, 2005

Interfund transfers in (out) for the year ended December 31, 2005, are as follows:

<u>Fund</u>	<u>Transfers</u>	
	<u>In</u>	<u>Out</u>
Governmental Funds:		
Major funds:		
General Fund	\$ 2,045,200	\$ 779,810
Special revenue-		
Street Maintenance Fund	288,750	1,668,080
Sales Tax Fund	1,717,140	1,859,200
Capital Projects-		
Sidewalk Construction	<u>50,000</u>	<u>-</u>
Total governmental funds	<u>4,101,090</u>	<u>4,307,090</u>
Proprietary Funds:		
Water and Sewer Fund	30,000	62,000
Sanitation Fund	<u>300,000</u>	<u>62,000</u>
Total proprietary funds	<u>330,000</u>	<u>124,000</u>
Total	<u>\$ 4,431,090</u>	<u>\$ 4,431,090</u>

The transfer out of \$1,859,200 from the Sales Tax Fund to the General Fund represents the allocation of overhead costs provided by General Fund programs during 2005. The Street Maintenance Fund transfer out includes a \$1,500,000 transfer to the Sales Tax Fund for the Rogers Avenue traffic signal project.

(10) Landfill Closure and Post Closure Care Costs

In October 1991, the EPA issued rules and regulations which require the City to place a final cover on its Municipal Solid Waster Landfill (MSWLF) when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for a period of 30 years following closure of the site.

In 1994, the City adopted GASB Statement 18, *Accounting for Municipal Solid Waste Landfill Closure and Postclosure Care Costs*. This statement requires that the City recognize a portion of the closure and postclosure care costs referred to above as an operating expense in each fiscal year based on landfill capacity used as of each fiscal year-end, even though such costs will be paid only near or after the date that the landfill stops accepting waste.

The City's permitted landfill capacity was increased from a total of 13,507,000 cubic yards to 72,607,000 cubic yards in 2003. The life of the landfill is now projected to last through 2045 rather than 2013. The landfill was opened on October 9, 1993. The City's reported landfill closure and postclosure care liability at December 31, 2005, is \$2,581,548. The remaining estimated closure and postclosure care costs of approximately \$33.6 million will be recognized as the remaining capacity is filled. The percentage of landfill capacity used to date was approximately 7.1% at December 31, 2005. These amounts are based upon annual engineering estimates of what it would cost to perform all closure and postclosure costs, based on the City's approved closure plan, through December 31, 2005. Actual costs may be significantly higher due to inflation, changes in technology, or changes in regulations by the Arkansas Department of Environmental Quality.

CITY OF FORT SMITH, ARKANSAS

Notes to Basic Financial Statements

December 31, 2005

The City is required by state and federal laws and regulations to make annual contributions to a trust to finance closure and postclosure care costs. The amount of financial assurance required by the state as of December 31, 2005, is \$5,479,402. In order to comply with this requirement, the City held an irrevocable standby letter of credit with BancorpSouth which is pledged to the Arkansas Department of Environmental Quality in the amount of \$4,660,000 at December 31, 2005. The City will increase the value of the letter of credit to meet the required level of financial assurance during 2006.

(11) New Applicable GASB Standards

GASB has issued statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans*, and No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. These statements establish uniform financial reporting standards for other postemployment benefits (OPEB) plans, improve the relevance and usefulness of financial reporting, and supersede statements No. 12, No. 26 and No. 27. The City will be required to implement these statements in its financial statements for periods beginning after December 15, 2006. Management has not determined the impact these statements will have on its financial statements.

GASB has also issued Statement No. 46, *Net Assets Restricted by Enabling Legislation*, which amends Statement No. 34. This statement establishes and modifies requirements related to restrictions of net assets resulting from enabling legislation. This statement becomes effective for financial statements for period beginning after June 15, 2005. City management has not determined the impact of this statement.

(12) Restatement of Prior Years' Government-Wide Financial Statements

In prior years, the City capitalized major street and drainage projects once the entire project was complete. During 2005, the City retroactively changed its accounting method to capitalize these land and construction in progress costs in the year the cost occurs which affects the government-wide Statement of Net Assets and Statement of Activities. This change increased 2004 net assets by \$36,116,650 (\$1,991,465 in land and \$34,125,185 in construction in progress- Note 3). This restatement increased previously reported 2004 change in net assets of the primary government, governmental activities in the government-wide financial statements by \$3,513,887.

CITY OF FORT SMITH, ARKANSAS

Notes to Basic Financial Statements

December 31, 2005

(13) Condensed Financial Statements-Discretely Presented Component Units

The following presents condensed financial statements for each of the four discretely presented component units:

Statement of Net Assets

	Governmental			Business-Type		
	Advertising and Promotion	Public Library	Total	Parking Authority	Airport Commission	Total
Assets:						
Current assets	\$ 297,716	\$ 1,062,722	\$ 1,360,438	\$ 80,629	\$ 3,078,078	\$ 3,158,707
Sales taxes receivable from the City	-	118,286	118,286	-	-	-
Capital Assets, net of accumulated depreciation, as applicable	-	492,819	492,819	2,224,253	36,137,234	38,361,487
Noncurrent assets	-	-	-	91,369	484,723	576,092
Total Assets	297,716	1,673,827	1,971,543	2,396,251	39,700,035	42,096,286
Liabilities:						
Current liabilities	17,356	31,758	49,114	94,081	656,426	750,507
Noncurrent liabilities	-	-	-	1,088,251	4,359,824	5,448,075
Total liabilities	17,356	31,758	49,114	1,182,332	5,016,250	6,198,582
Net Assets:						
Investment in capital assets, net of related debt	-	492,819	492,819	1,053,258	32,306,598	33,359,856
Restricted	-	-	-	69,620	1,305,054	1,374,674
Unrestricted	280,360	1,149,250	1,429,610	91,041	1,072,133	1,163,174
Total net assets	\$ 280,360	\$ 1,642,069	\$ 1,922,429	\$ 1,213,919	\$ 34,683,785	\$ 35,897,704

CITY OF FORT SMITH, ARKANSAS

Notes to Basic Financial Statements

December 31, 2005

Statement of Activities

For the Year Ended December 31, 2005

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Fees, Fines, and Charges for Services	Operating Grants and Contributions	Governmental Activities		
				Advertising and Promotion	Public Library	Total
Advertising/Promotion	\$ 518,762	\$ -	\$ 3,779	\$ (514,983)	\$ -	\$ (514,983)
Public Library	2,160,615	106,349	325,127		(1,729,139)	(1,729,139)
Total	\$ 2,679,377	\$ 106,349	\$ 328,906	(514,983)	(1,729,139)	(2,244,122)

General revenues:

Property taxes	-	981,043	981,043
Sales taxes	-	831,860	831,860
Hospitality hotel/motel taxes	598,560	-	598,560
Unrestricted investments earnings	5,601	9,288	14,889
Other	-	61,401	61,401
Total general revenues	604,161	1,883,592	2,487,753
Change in net assets	89,178	154,453	243,631
Net assets, beginning	191,182	1,487,616	1,678,798
Net assets, ending	<u>\$ 280,360</u>	<u>\$ 1,642,069</u>	<u>\$ 1,922,429</u>

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Fees, Fines, and Charges for Services	Capital Grants and Contributions	Business-Type Activities		
				Parking Authority	Airport Commission	Total
Parking Authority	\$ 277,999	\$ 174,628	\$ -	\$ (103,371)	\$ -	\$ (103,371)
Airport Commission	4,556,414	2,116,195	1,074,656	-	(1,365,563)	(1,365,563)
Total	\$ 4,834,413	\$ 2,290,823	\$ 1,074,656	(103,371)	(1,365,563)	(1,468,934)

General revenues:

Unrestricted investment earnings	5,512	113,178	118,690
Payment from City of Fort Smith	320,000	-	320,000
Other	-	369,540	369,540
Total general revenues	325,512	482,718	808,230
Change in net assets	222,141	(882,845)	(660,704)
Net assets, beginning	991,778	35,566,630	36,558,408
Net assets, ending	<u>\$ 1,213,919</u>	<u>\$ 34,683,785</u>	<u>\$ 35,897,704</u>

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City of Fort Smith, Arkansas
Required Supplementary Information
Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual - Street Maintenance Fund
For the Year Ended December 31, 2005

	Budgeted Amounts		Actual GAAP Basis	Adjustments Budget Basis	Actual Budget Basis	Variance with Final Budget
	Original	Final				
Revenues						
Taxes	\$ 1,513,100	\$ 1,513,100	\$ 1,520,730	\$ -	\$ 1,520,730	\$ 7,630
Intergovernmental	3,772,500	3,855,864	3,961,373	-	3,961,373	105,509
Interest	60,000	151,442	167,019	-	167,019	15,577
Miscellaneous	15,000	6,350	1,451	-	1,451	(4,899)
Total Revenues	5,360,600	5,526,756	5,650,573	-	5,650,573	123,817
Expenditures						
Current:						
General government						
Administration	205,799	206,196	181,143	5,987	187,130	19,066
Legal	46,500	46,500	40,094	-	40,094	6,406
Finance	281,944	283,144	262,872	12,596	275,468	7,676
Public works						
Operations	357,500	367,230	345,669	1,966	347,635	19,595
Streets	2,573,755	2,573,645	2,185,362	9,465	2,194,827	378,818
Traffic Control	1,850,408	1,872,788	1,573,716	36,394	1,610,110	262,678
Community services						
Parks and Recreation	747,436	747,436	206,283	433,542	639,825	107,611
Other	567,000	513,920	21,501	200,000	221,501	292,419
Capital Outlay	311,885	164,885	157,065	-	157,065	7,820
Total Expenditures	6,942,227	6,775,744	4,973,705	699,950	5,673,655	1,102,089
Excess (Deficiency) of revenues over (under) expenditures	(1,581,627)	(1,248,988)	676,868	(699,950)	(23,082)	1,225,906
Other Financing Uses:						
Transfers in	-	288,750	288,750	-	288,750	-
Transfers out	(1,500,000)	(1,668,080)	(1,668,080)	-	(1,668,080)	-
Total Other Financing Uses	(1,500,000)	(1,379,330)	(1,379,330)	-	(1,379,330)	-
Net Change in Fund Balances	(3,081,627)	(2,628,318)	(702,462)	(699,950)	(1,402,412)	1,225,906
Fund Balances, January 1	4,850,720	4,850,720	5,714,626	-	5,714,626	-
Fund Balances, December 31	\$ 1,769,093	\$ 2,222,402	\$ 5,012,164	\$ (699,950)	\$ 4,312,214	\$ 1,225,906

City of Fort Smith, Arkansas

Notes to Required Supplementary Information

December 31, 2005

Budgets and Budget Accounting

By December 1 of each year, the City Administrator is required to submit to the Board of Directors ("Board") a proposed budget for the fiscal year beginning on the following January 1. The operating budget includes proposed expenditures and the means of financing them. Public hearings are conducted prior to adoption of the budget to allow citizen input. The state statute governing adoption of annual budgets requires the Board to approve the budget prior to February 1. For practical purposes, the Board usually adopts the budget in December.

Annual budgets are legally adopted for the General Fund and the Street Maintenance Fund, a special revenue fund.

The City Administrator is authorized to transfer budgeted amounts within departments; however, any revisions that alter the total expenditures of any department must be approved by the Board. During 2005, supplemental appropriations (expenditures and transfers out) were adopted by the Board for the General Fund totaling \$451,150 to provide funds for improvements to fire stations, additional funds due the library, reimbursement to the Street Maintenance Fund for park capital improvements, and economic development projects related to the Air National Guard. During 2005, supplemental appropriations were adopted by the Board for the Street Maintenance Fund totaling \$1,597 for economic development projects related to the air national guard facility. For budgetary purposes, unencumbered appropriations lapse at year end.

The budgets for the General Fund and the Street Maintenance Fund are prepared on a basis which differs from GAAP. The difference between budget and GAAP basis is that encumbrances are recorded as the equivalent of expenditures (budget) as opposed to a reservation of fund balance (GAAP). Accordingly, encumbrances have been reflected in the budget and actual schedules as budget adjustments to provide a more meaningful comparison. Budget and actual schedules are presented at the departmental level which is the legal level of budgetary control.

CITY OF FORT SMITH, ARKANSAS

Nonmajor Governmental Funds

For the Fiscal Year Ended December 31, 2005

Special Revenue Funds:

Community Development Block Grant (CDBG)- To account for the operations of projects utilizing CDBG funds. Such revenues are restricted to expenditures for specified projects by the Department of Housing and Urban Development.

Tilles Park- To account for donations received from the Tilles family estate. The money received is restricted for upgrading and maintaining Tilles Park.

Home Investment Partnership Act- To account for federal funds administered by the Community Housing Development Organizations (CHDO) and other subrecipients to provide assistance for affordable housing.

Special Grants- To account for federal, state, and local grants received by the City. Current grants include: Economic Development Administration (EDA) for infrastructure projects, State of Arkansas recycling grants, Arkansas historic preservation grants, and a local grant from Sebastian County for drug law enforcement projects. These funds are restricted to expenditures for approved projects of the various agencies.

LOPFI Contribution- To account for the funding of contributions made to the Police and Fire Relief and Pension Plans administered by LOPFI.

Convention Center- To account for the state tourism turnback received by the City to be used for operations and capital asset acquisition for the convention center. The turnback is restricted for tourism related uses.

Capital Projects Funds:

Sidewalk Construction- To account for resources utilized to construct sidewalks within the City limits. Revenues collected for sidewalk construction include contributions from the community and permit assessments on new construction. Projects are selected by the City Board. The fund is perpetual.

City of Fort Smith, Arkansas
 Combining Balance Sheet
 Nonmajor Governmental Funds
 December 31, 2005

	Special Revenue						Capital Projects	Total Nonmajor Governmental Funds
	Community Development Block Grant	Tilles Park	HOME Investment Partnership Act	Special Grants	LOPFI Contribution	Convention Center		
Assets								
Cash	7,449						43,850	227,818
Investments	65,916	5,172		608,926	12,815,021	100,000	369,732	14,462,350
Receivables, net of allowance for uncollectibles								
Taxes					2,415,645			2,415,645
Accounts				67,181				67,181
Accrued interest	148	16		2,076	40,863	2,499	1,152	46,754
Due from other governments	26,567		458	104,269				131,294
Total Assets	\$ 100,080	\$ 5,188	\$ 76,977	\$ 782,452	\$ 15,271,529	\$ 700,082	\$ 414,734	\$ 17,351,042
Liabilities and Fund Balances								
Liabilities:								
Accounts payable and accrued liabilities			458	5,079		69,607	18,470	120,181
Retainage payable	12,308						2,052	2,052
Due to other funds	58,240		6,152					18,460
Unearned revenues	2,323		70,367	659,504	2,175,316			2,963,427
Other								2,323
Total Liabilities	99,438		76,977	664,583	2,175,316	69,607	20,522	3,106,443
Fund Balances:								
Reserved for:								
Encumbrances						136,301		136,301
Other purposes	642	5,188				494,174		500,004
Unreserved, reported in nonmajor:								
Special revenue funds				117,869	13,096,213			13,214,082
Capital projects funds							394,212	394,212
Total Fund Balances	642	5,188		117,869	13,096,213	630,475	394,212	14,244,599
Total Liabilities and Fund Balances	\$ 100,080	\$ 5,188	\$ 76,977	\$ 782,452	\$ 15,271,529	\$ 700,082	\$ 414,734	\$ 17,351,042

City of Fort Smith, Arkansas
 Combining Statement of Revenues, Expenditures and Changes in Fund Balances
 Nonmajor Governmental Funds
 For the Year Ended December 31, 2005

	Special Revenue						Capital Projects	Total Nonmajor Governmental Funds
	Community Development Block Grant	Tilles Park	HOME Investment Partnership Act	Special Grants	LOPFI Contribution	Convention Center		
Revenues								
Taxes	-	\$ -	\$ -	\$ -	\$ 2,027,640	-	\$ -	\$ 2,027,640
Licenses and permits	-	-	-	-	-	-	191,475	191,475
Intergovernmental	800,577	-	443,815	539,848	978,008	1,782,532	-	4,544,800
Fines and forfeitures	-	-	-	-	130,301	-	-	130,301
Interest	-	-	144	7,638	351,957	18,549	9,092	387,380
Contributions	-	400	-	-	807,281	-	-	807,681
Miscellaneous	22	-	-	8,906	1,847	-	-	10,775
Total Revenues	800,599	544	443,815	556,392	4,297,034	1,801,101	200,567	8,100,052
Expenditures								
Current:								
Public safety								
Police	-	-	-	262,856	1,735,350	-	-	1,998,206
Fire	-	-	-	81,686	1,971,314	-	-	2,053,000
Public works								
Streets	-	-	-	6,300	-	-	223,422	229,722
Community services								
Parks and Recreation	-	-	-	22,000	-	-	-	22,000
Convention Center	-	-	-	-	-	1,237,194	-	1,237,194
Transit	-	-	-	-	-	-	-	31,734
Housing and Rehabilitation	800,599	-	443,815	111,560	-	-	-	1,355,974
Other	-	-	-	33,691	2,327	-	-	36,018
Capital Outlay	-	-	-	588	-	518,673	-	519,261
Total Expenditures	800,599	-	443,815	550,415	3,708,991	1,755,867	223,422	7,483,109
Excess (Deficiency) of revenues over (under) expenditures	-	544	-	5,977	588,043	45,234	(22,855)	616,943
Other Financing Uses:								
Transfers in	-	-	-	-	-	-	50,000	50,000
Total Other Financing Sources and Uses	-	-	-	-	-	-	50,000	50,000
Net Change in Fund Balances	-	544	-	5,977	588,043	45,234	27,145	666,943
Fund Balances, January 1	642	4,644	-	1,111,892	12,508,170	585,241	367,067	13,577,656
Fund Balances, December 31	642	5,188	-	1,117,869	13,096,213	630,475	394,212	14,244,599

CITY OF FORT SMITH, ARKANSAS

Internal Service Funds

For the Fiscal Year Ended December 31, 2005

Working Capital- To account for the accumulation and allocation of costs associated with fuel and duplicating services.

Employee Insurance- To account for monthly premiums contributed by the City and its employees for health insurance coverage and to provide for payment of life insurance premiums. The plan is self-insured with a third party administrator acting as paying agent for claims. Premiums are accumulated in this fund for the payment of employee insurance claims.

Workers' Compensation- To account for amounts contributed for workers' compensation. Workers' compensation contributions are accumulated in this fund for the payment of workers' compensation claims.

City of Fort Smith, Arkansas
Combining Statement of Net Assets
Internal Service Funds
December 31, 2005

	Working Capital	Employee Insurance	Workers' Compensation	Total
Assets				
Current Assets:				
Cash	\$ 46,759	\$ 163,016	\$ 146,022	\$ 355,797
Investments	-	1,675,799	151,262	1,827,061
Receivables, net of allowance for uncollectibles				
Accounts	-	35,168	-	35,168
Accrued interest	-	5,437	951	6,388
Inventory	44,216	-	-	44,216
Due from other funds	398	-	-	398
Total Current Assets	<u>91,373</u>	<u>1,879,420</u>	<u>298,235</u>	<u>2,269,028</u>
Total Assets	<u>91,373</u>	<u>1,879,420</u>	<u>298,235</u>	<u>2,269,028</u>
Liabilities				
Current Liabilities:				
Accounts payable and accrued liabilities	18,935	46,144	78,493	143,572
Claims and judgments	-	946,815	166,890	1,113,705
Total Current Liabilities	<u>18,935</u>	<u>992,959</u>	<u>245,383</u>	<u>1,257,277</u>
Total Liabilities	<u>18,935</u>	<u>992,959</u>	<u>245,383</u>	<u>1,257,277</u>
Net Assets				
Unrestricted	<u>72,438</u>	<u>886,461</u>	<u>52,852</u>	<u>1,011,751</u>
Total Net Assets	<u>\$ 72,438</u>	<u>\$ 886,461</u>	<u>\$ 52,852</u>	<u>\$ 1,011,751</u>

City of Fort Smith, Arkansas
Combining Statement of Revenues, Expenses and Changes in Fund Net Assets
Internal Service Funds
For the Year Ended December 31, 2005

	Working Capital	Employee Insurance	Workers' Compensation	Total
Operating Revenues				
Charges for services - internal	\$ 539,906	\$ 5,816,726	\$ 290,820	\$ 6,647,452
Charges for services - external	-	342,898	-	342,898
Total Operating Revenues	<u>539,906</u>	<u>6,159,624</u>	<u>290,820</u>	<u>6,990,350</u>
Operating Expenses				
Contractual services	-	696,705	36,194	732,899
Materials and supplies	495,152	-	-	495,152
Insurance claims and expenses	-	5,608,144	348,917	5,957,061
Total Operating Expenses	<u>495,152</u>	<u>6,304,849</u>	<u>385,111</u>	<u>7,185,112</u>
Operating Income (Loss)	<u>44,754</u>	<u>(145,225)</u>	<u>(94,291)</u>	<u>(194,762)</u>
Nonoperating Revenues				
Investment earnings	-	50,738	10,998	61,736
Total Nonoperating Revenues	<u>-</u>	<u>50,738</u>	<u>10,998</u>	<u>61,736</u>
Change in Net Assets	44,754	(94,487)	(83,293)	(133,026)
Total net assets, beginning	<u>27,684</u>	<u>980,948</u>	<u>136,145</u>	<u>1,144,777</u>
Total net assets, ending	<u>\$ 72,438</u>	<u>\$ 886,461</u>	<u>\$ 52,852</u>	<u>\$ 1,011,751</u>

City of Fort Smith, Arkansas
Combining Statement of Cash Flows
Internal Service Funds
For the Year Ended December 31, 2005

	Working Capital	Employee Insurance	Workers' Compensation	Total
Cash Flows from Operating Activities:				
Cash received from service users	\$ 539,879	\$ 330,559	\$ -	\$ 870,438
Cash received from city and employee contributions	-	5,816,726	292,349	6,109,075
Cash payments for goods and services	(514,639)	-	-	(514,639)
Cash payments for premiums and other operating expenses	-	(696,705)	899	(695,806)
Cash payments for claims paid	-	(5,488,481)	(447,157)	(5,935,638)
Net cash provided by (used for) operating activities	<u>25,240</u>	<u>(37,901)</u>	<u>(153,909)</u>	<u>(166,570)</u>
Cash Flows from Investing Activities:				
Proceeds from sales and maturities of investment securities	-	517,793	438,772	956,565
Outlays for purchases of investment securities	-	(699,109)	(261,061)	(960,170)
Interest on investments	-	48,247	10,801	59,048
Net cash provided by (used for) investing activities	<u>-</u>	<u>(133,069)</u>	<u>188,512</u>	<u>55,443</u>
Net increase (decrease) in cash	25,240	(170,970)	34,603	(111,127)
Cash, January 1	<u>21,519</u>	<u>333,986</u>	<u>111,419</u>	<u>466,924</u>
Cash, December 31	<u>\$ 46,759</u>	<u>\$ 163,016</u>	<u>\$ 146,022</u>	<u>\$ 355,797</u>
Reconciliation of operating income (loss) to net cash used for operating activities:				
Operating income (loss)	\$ 44,754	\$ (145,225)	\$ (94,291)	\$ (194,762)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:				
Change in assets and liabilities:				
Accounts receivable	-	(12,339)	1,529	(10,810)
Due from other funds	(27)	-	-	(27)
Inventory	(17,962)	-	-	(17,962)
Accounts payable and accrued liabilities	(1,525)	(9,222)	37,093	26,346
Liability for claims and judgments	-	128,885	(98,240)	30,645
Total adjustments	<u>(19,514)</u>	<u>107,324</u>	<u>(59,618)</u>	<u>28,192</u>
Net cash provided by (used for) operating activities	<u>\$ 25,240</u>	<u>\$ (37,901)</u>	<u>\$ (153,909)</u>	<u>\$ (166,570)</u>

CITY OF FORT SMITH, ARKANSAS

Fiduciary Fund

For the Fiscal Year Ended December 31, 2005

(1) **Agency Fund**

Payroll- To account for the collection and payment of the City's payroll and associated liabilities.

City of Fort Smith, Arkansas
Combining Statement of Changes in Assets and Liabilities - Payroll Fund
For the Fiscal Year Ended December 31, 2005

	<u>Payroll</u>
Assets:	
Cash balance, January 1	\$ -
Additions	35,414,690
Deductions	<u>(35,414,834)</u>
Cash balance, December 31	<u>(144)</u>
Accounts receivable, January 1	-
Additions	33,751,551
Deductions	<u>(33,751,407)</u>
Accounts receivable, December 31	<u>144</u>
Total assets	<u><u>\$ -</u></u>
Liabilities:	
Account payable balance, January 1	\$ -
Additions	20,016,366
Deductions	<u>(20,016,366)</u>
Account payable balance, December 31	<u>-</u>
Total liabilities	<u><u>\$ -</u></u>

CITY OF FORT SMITH, ARKANSAS

Discretely Presented Component Units

For the Fiscal Year Ended December 31, 2005

Governmental Fund Types- Special Revenue Funds

Advertising and Promotion- To account for the operations of the Advertising and Promotion Commission utilizing revenues from the hotel/motel tax. These revenues are restricted to expenditures of the Advertising and Promotion Commission to promote the City and increase tourism.

Public Library- To account for the operations of the Fort Smith Public Library in providing library services to citizens.

Proprietary Fund Types- Enterprise Funds

Parking Authority- To account for the provision of parking facilities within the City. All services necessary to provide such services are accounted for in this fund including, but not limited to, administration, operations, maintenance, financing, and related debt service.

Airport Commission- To account for the provision of regional airport services. All activities necessary to provide such services are accounted for in this fund, including but not limited to, administration, operations, maintenance, financing, and related debt service.

City of Fort Smith, Arkansas
Combining Statement of Net Assets
Governmental Component Units
December 31, 2005

	Advertising and Promotion	Public Library	Total
Assets:			
Cash	\$ 12,259	\$ 534,198	\$ 546,457
Investments	242,527	357,037	599,564
Receivables, net of allowance for uncollectibles			
Taxes	41,102	96,170	137,272
Sales taxes	-	118,286	118,286
Accounts	-	22,905	22,905
Accrued interest	756	230	986
Prepaid items	1,072	47,182	48,254
Inventory, at cost	-	5,000	5,000
Capital assets:			
Nondepreciable	-	422,132	422,132
Depreciable	-	70,687	70,687
Total Assets	<u>297,716</u>	<u>1,673,827</u>	<u>1,971,543</u>
Liabilities:			
Current:			
Accounts payable and accrued liabilities	<u>17,356</u>	<u>31,758</u>	<u>49,114</u>
Total Liabilities	<u>17,356</u>	<u>31,758</u>	<u>49,114</u>
Net Assets:			
Invested in capital assets	-	492,819	492,819
Unrestricted	<u>280,360</u>	<u>1,149,250</u>	<u>1,429,610</u>
Total Net Assets	<u>\$ 280,360</u>	<u>\$ 1,642,069</u>	<u>\$ 1,922,429</u>

City of Fort Smith, Arkansas
Combining Statement of Activities - Governmental Component Units
For the Year Ended December 31, 2005

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Fees, Fines, and Charges for Services	Operating Grants and Contributions	Governmental Activities		
					Advertising & Promotion	Public Library
Advertising & Promotion	\$ 518,762	\$ -	\$ 3,779	\$ (514,983)	\$ (1,729,139)	\$ (514,983)
Public Library	2,160,615	106,349	325,127	(514,983)	(1,729,139)	(1,729,139)
Total	<u>\$ 2,679,377</u>	<u>\$ 106,349</u>	<u>\$ 328,906</u>	<u>(514,983)</u>	<u>(1,729,139)</u>	<u>(2,244,122)</u>
General revenues:						
Property taxes				981,043		981,043
Sales taxes				831,860		831,860
Hospitality taxes				598,560		598,560
Unrestricted investment earnings				9,288		9,288
Other				61,401		61,401
Total general revenues				1,883,592		1,883,592
Change in net assets				89,178	154,453	243,631
Net assets, beginning				191,182	1,487,616	1,678,798
Net assets, ending				<u>\$ 280,360</u>	<u>\$ 1,642,069</u>	<u>\$ 1,922,429</u>

City of Fort Smith, Arkansas
Balance Sheet - Advertising and Promotion
Governmental Component Unit
December 31, 2005

Assets:

Cash	\$	12,259
Investments		242,527
Receivables, net of allowance for uncollectibles		
Taxes		41,102
Accrued interest		756
Prepaid items		<u>1,072</u>
 Total Assets	 \$	 <u>297,716</u>

Liabilities and Fund Balance:

Current:

Accounts payable and accrued liabilities	\$	<u>17,356</u>
 Total Liabilities		 17,356

Fund Balance:

Unrestricted		<u>280,360</u>
 Total Liabilities and Fund Balance	 \$	 <u>297,716</u>

City of Fort Smith, Arkansas
Statement of Revenues, Expenditures and Change in Fund Balance
Advertising and Promotion - Governmental Component Unit
For the Year Ended December 31, 2005

Revenues		
Taxes	\$	598,560
Interest		5,601
Contributions		<u>3,779</u>
Total Revenues		<u>607,940</u>
Expenditures		
Current:		
Other		<u>500,805</u>
Total Expenditures		<u>500,805</u>
Excess of revenues over expenditures		<u>107,135</u>
Other Financing Uses:		
Transfers out to primary government		<u>(17,957)</u>
Total Other Financing Uses		<u>(17,957)</u>
Net Change in Fund Balance		89,178
Fund Balance, January 1		<u>191,182</u>
Fund Balance, December 31	\$	<u><u>280,360</u></u>

City of Fort Smith, Arkansas
Combining Statement of Net Assets
Business-Type Component Units
December 31, 2005

	Parking Authority	Airport	Total
Assets			
Current Assets:			
Cash	\$ 42,951	\$ 490,390	\$ 533,341
Investments	34,228	1,175,000	1,209,228
Receivables, net of allowance for uncollectibles			
Accounts	1,590	33,644	35,234
Accrued interest	179	22,042	22,221
Restricted:			
Cash	-	92,914	92,914
Investments	-	1,044,583	1,044,583
Accounts receivable, net of allowances for uncollectibles	-	154,167	154,167
Interest receivable	-	13,390	13,390
Prepaid items and deposits	1,681	48,582	50,263
Inventory	-	3,366	3,366
Total Current Assets	<u>80,629</u>	<u>3,078,078</u>	<u>3,158,707</u>
Noncurrent Assets:			
Restricted:			
Investments	69,620	-	69,620
Deferred charges	21,749	138,282	160,031
Other	-	346,441	346,441
Capital assets:			
Nondepreciable	1,359,160	6,010,552	7,369,712
Depreciable	865,093	30,126,682	30,991,775
Total Noncurrent Assets	<u>2,315,622</u>	<u>36,621,957</u>	<u>38,937,579</u>
Total Assets	<u>2,396,251</u>	<u>39,700,035</u>	<u>42,096,286</u>
Liabilities			
Current liabilities:			
Accounts payable and accrued liabilities	4,680	497,789	502,469
Payable from restricted assets:			
Accrued interest	4,401	58,637	63,038
Revenue bonds payable, current	85,000	100,000	185,000
Total Current Liabilities	<u>94,081</u>	<u>656,426</u>	<u>750,507</u>
Noncurrent liabilities:			
Due within one year	10,966	90,117	101,083
Due in more than one year	1,077,285	4,269,707	5,346,992
Total Noncurrent Liabilities	<u>1,088,251</u>	<u>4,359,824</u>	<u>5,448,075</u>
Total Liabilities	<u>1,182,332</u>	<u>5,016,250</u>	<u>6,198,582</u>
Net Assets			
Invested in capital assets, net of related debt	1,053,258	32,306,598	33,359,856
Restricted for bond retirement	69,620	493,376	562,996
Restricted for Federal Aviation Administration (Escrow)	-	657,511	657,511
Restricted for capital projects	-	154,167	154,167
Unrestricted	91,041	1,072,133	1,163,174
Total Net Assets	<u>\$ 1,213,919</u>	<u>\$ 34,683,785</u>	<u>\$ 35,897,704</u>

City of Fort Smith, Arkansas
Combining Statement of Activities - Business-Type Component Units
For the Year Ended December 31, 2005

	Program Revenues		Net (Expense) Revenue and Changes in Net Assets	
	Fees, Fines, and Charges for Services	Capital Grants and Contributions	Parking Authority	Business-Type Activities
	Expenses		Airport	Total
Parking Authority	\$ 277,999	\$ -	\$ (103,371)	\$ (103,371)
Airport	4,556,414	1,074,656	-	(1,365,563)
			Commission	
Total	\$ 4,834,413	\$ 1,074,656	(103,371)	(1,468,934)
General revenues:				
Unrestricted investment earnings			5,512	118,690
Payment from City of Fort Smith			320,000	320,000
Other			-	369,540
Total general revenues			325,512	808,230
Change in net assets			222,141	(660,704)
Net assets, beginning			991,778	36,558,408
Net assets, ending			\$ 1,213,919	\$ 35,897,704

City of Fort Smith, Arkansas
Combining Statement of Cash Flows
Business-Type Component Units
For the Year Ended December 31, 2005

	Parking Authority	Airport	Total
Cash Flows from Operating Activities:			
Cash received from customers	\$ 174,992	\$ 1,758,967	\$ 1,933,959
Cash payments for goods and services	(84,715)	(947,598)	(1,032,313)
Cash paid to employees	(87,647)	(574,698)	(662,345)
Cash payments for premiums and other operating expenses	-	(75,335)	(75,335)
Cash received from other operating revenues	-	313,954	313,954
Net cash provided by operating activities	<u>2,630</u>	<u>475,290</u>	<u>477,920</u>
Cash Flows from Noncapital Financing Activities:			
Operating transfers in from primary government	320,000	-	320,000
Net cash provided by noncapital financing activities	<u>320,000</u>	<u>-</u>	<u>320,000</u>
Cash Flows from Capital and Related Financing Activities:			
Proceeds from grants	-	958,699	958,699
Proceeds from sale of capital assets	295,000	1,301	296,301
Acquisition and construction of capital assets	(24,467)	(1,997,678)	(2,022,145)
Principal paid on bonds and notes	(493,113)	(399,577)	(892,690)
Interest paid on bonds and notes	(65,986)	(244,369)	(310,355)
Net cash used for capital and related financing activities	<u>(288,566)</u>	<u>(1,681,624)</u>	<u>(1,970,190)</u>
Cash Flows from Investing Activities:			
Proceeds from sales and maturities of investment securities	794,869	2,305,335	3,100,204
Outlays for purchases of investment securities	(791,447)	(2,219,583)	(3,011,030)
Interest on investments	5,465	199,962	205,427
Net cash provided by investing activities	<u>8,887</u>	<u>285,714</u>	<u>294,601</u>
Net increase (decrease) in cash and restricted cash	42,951	(920,620)	(877,669)
Cash and restricted cash, January 1	-	1,503,924	1,503,924
Cash and restricted cash, December 31	<u>\$ 42,951</u>	<u>\$ 583,304</u>	<u>\$ 626,255</u>

City of Fort Smith, Arkansas
Combining Statement of Cash Flows
Business-Type Component Units
For the Year Ended December 31, 2005
(Continued)

	<u>Parking Authority</u>	<u>Airport</u>	<u>Total</u>
Reconciliation of operating loss to net cash provided by operating activities:			
Operating loss	\$ (37,612)	\$ (2,197,097)	\$ (2,234,709)
Adjustments to reconcile operating loss to net cash provided by (used for) operating activities:			
Depreciation	91,907	2,604,404	2,696,311
Miscellaneous revenue	121	5,610	5,731
Change in assets and liabilities:			
Accounts receivable	243	4,552	4,795
Inventory	-	(1,419)	(1,419)
Prepaid items		(1,209)	(1,209)
Accounts payable and accrued liabilities	(51,981)	113,885	61,904
Liabilities for accrued vacation and sick leave	(48)	-	(48)
Other liabilities	-	(53,436)	(53,436)
Total adjustments	<u>40,242</u>	<u>2,672,387</u>	<u>2,712,629</u>
Net cash provided by operating activities	<u>\$ 2,630</u>	<u>\$ 475,290</u>	<u>\$ 477,920</u>

**Capital Assets
Used in the Operation
of Governmental Funds**

The following three schedules present the capital asset balances related to governmental funds.

City of Fort Smith, Arkansas
Schedule of Capital Assets Used in the Operation of
Governmental Funds by Source
December 31, 2005

Capital Assets:

Land	\$ 21,278,197
Buildings	69,121,909
Improvements other than buildings	7,405,382
Machinery and equipment	22,579,658
Infrastructure	178,295,144
Accumulated depreciation	<u>(63,397,577)</u>
	235,282,713
Construction In Progress	<u>26,643,562</u>
 Total Capital Assets - Governmental Funds	 <u><u>\$ 261,926,275</u></u>

City of Fort Smith, Arkansas
Schedule of Capital Assets Used in the Operation of Governmental Funds
By Function and Activity Net of Accumulated Depreciation
December 31, 2005

Function and Activity	Land	Buildings	Improvements Other Than Buildings	Machinery and Equipment	Infrastructure	Construction In Progress	Total
General Government							
Administration	\$ 81,050	\$ 121,980	\$ 27,757	\$ 539,698	\$ -	\$ -	\$ 770,485
Legal	-	-	24,005	223,634	-	-	247,639
Finance	-	45,375	61,794	1,647,949	-	-	1,755,118
Public Safety							
Police	1,150,000	5,253,068	309,543	4,216,017	-	-	10,928,628
Fire	313,241	3,030,046	6,350	5,734,948	-	-	9,084,585
Public Works							
Operations	60,933	-	54,689	185,653	-	-	301,275
Streets	8,563,719	-	-	3,422,839	178,295,144	26,452,063	216,733,765
Traffic control	-	-	-	419,336	-	-	419,336
Community Services							
Health and social services	-	-	20,002	20,742	-	-	40,744
Parks and recreation	1,950,366	8,260,835	6,588,215	1,116,415	-	191,499	18,107,330
Convention center	7,583,649	30,757,489	149,896	1,780,289	-	-	40,271,323
Transit	427,974	1,117,907	60,638	1,381,181	-	-	2,987,700
Housing and rehabilitation	-	193,982	102,493	36,931	-	-	333,406
Other	1,147,265	20,341,227	-	1,854,026	-	-	23,342,518
Sub-total	21,278,197	69,121,909	7,405,382	22,579,658	178,295,144	26,643,562	325,323,852
Accumulated depreciation	-	(8,893,245)	(4,772,700)	(13,887,729)	(35,843,903)	-	(63,397,577)
Total	\$ 21,278,197	\$ 60,228,664	\$ 2,632,682	\$ 8,691,929	\$ 142,451,241	\$ 26,643,562	\$ 261,926,275

City of Fort Smith, Arkansas
Schedule of Changes in Capital Assets Used in the Operation
of Governmental Funds By Function and Activity
For the Fiscal Year Ended December 31, 2005

Function and Activity	Capital Assets 12/31/04	Additions	Deletions	Transfers	Capital Assets 12/31/05
General Government					
Administration	\$ 755,199	\$ 31,507	\$ 16,221	-	\$ 770,485
Legal	240,375	7,264	-	-	247,639
Finance	943,022	927,159	115,063	-	1,755,118
Public Safety					
Police	10,845,804	234,583	151,759	-	10,928,628
Fire	8,717,805	366,780	-	-	9,084,585
Public Works					
Operations	301,275	-	-	-	301,275
Streets	205,559,687	11,192,550	18,472	-	216,733,765
Traffic Control	354,995	64,341	-	-	419,336
Community Services					
Health and social services	40,744	-	-	-	40,744
Parks and recreation	17,430,778	718,031	41,479	-	18,107,330
Convention center	39,824,760	446,563	-	-	40,271,323
Transit	2,826,266	161,434	-	-	2,987,700
Housing and rehabilitation	327,495	5,911	-	-	333,406
Other	23,342,518	-	-	-	23,342,518
Accumulated Depreciation	(56,790,973)	(6,919,042)	(312,438)	-	(63,397,577)
Total	\$ 254,719,750	\$ 7,237,081	\$ 30,556	\$ -	\$ 261,926,275

Table 1**City of Fort Smith, Arkansas****Net Assets by Component****Last Three Fiscal Years**

(Accrual Basis of Accounting)

	Fiscal Year		
	2003 (Restated)	2004 (Restated)	2005
Governmental activities			
Invested in capital assets, net of related debt	\$ 233,152,845	\$ 254,719,750	\$ 260,483,758
Restricted	6,135,903	4,470,232	3,988,372
Unrestricted	55,062,995	55,390,169	66,055,588
Total governmental activities net assets	<u>\$ 294,351,743</u>	<u>\$ 314,580,151</u>	<u>\$ 330,527,718</u>
Business-Type activities			
Invested in capital assets, net of related debt	\$ 135,630,581	\$ 152,618,444	\$ 181,439,396
Restricted	25,199,051	24,005,631	26,844,476
Unrestricted (deficit)	(9,043,315)	(5,371,394)	(12,506,307)
Total business-type activities	<u>\$ 151,786,317</u>	<u>\$ 171,252,681</u>	<u>\$ 195,777,565</u>
Primary government			
Invested in capital assets, net of related debt	\$ 368,783,426	\$ 407,338,194	\$ 441,923,154
Restricted	31,334,954	28,475,863	30,832,848
Unrestricted	46,019,680	50,018,775	53,549,281
Total primary government activities	<u>\$ 446,138,060</u>	<u>\$ 485,832,832</u>	<u>\$ 526,305,283</u>

Note: This is the third year of implementation for GASB Statement 34, therefore, additional years will be presented in the future for comparison purposes.

Table 2

City of Fort Smith, Arkansas

Changes in Net Assets
Last Three Fiscal Years
 (Accrual Basis of Accounting)

	Fiscal Year		
	2003 (Restated)	2004 (Restated)	2005
Expenses			
Governmental Activities:			
General government	\$ 6,285,719	\$ 6,291,295	\$ 7,204,031
Public safety	22,479,701	22,814,182	25,007,200
Public works	9,750,060	8,547,371	8,624,464
Community services	9,881,779	10,319,043	10,723,724
Interest on long-term debt	519,078	128,042	-
Total governmental activities expenses	48,916,337	48,099,933	51,559,419
Business-Type Activities:			
Water and sewer	31,172,483	29,270,855	29,678,171
Sanitation	8,466,593	9,300,590	9,075,365
Total business-type activities expenses	39,639,076	38,571,445	38,753,536
Total primary government expenses	\$ 88,555,413	\$ 86,671,378	\$ 90,312,955
Program Revenues			
Governmental Activities:			
Charges for services			
General government	\$ 2,933,495	\$ 3,141,036	\$ 3,445,662
Public safety	233,786	223,224	219,114
Public works	-	466,849	-
Community services	754,306	849,429	890,174
Operating grants and contributions	9,786,072	9,837,419	10,513,626
Capital grants and contributions	6,650,958	6,600,991	2,106,374
Total governmental activities program revenues	20,358,617	21,118,948	17,174,950
Business-Type Activities:			
Charges for services			
Water and sewer	28,306,482	28,995,627	30,402,024
Sanitation	9,393,659	10,474,818	11,129,352
Operating grants and contributions	596,100	343,786	-
Capital grants and contributions	259,167	980,093	1,376,054
Total business-type activities program revenues	38,555,408	40,794,324	42,907,430
Total primary government program revenues	\$ 58,914,025	\$ 61,913,272	\$ 60,082,380
Net (expense) revenue			
Governmental activities	\$ (28,557,720)	\$ (26,980,985)	\$ (34,384,465)
Business-type activities	(1,083,668)	2,222,879	4,153,890
Total primary government net expense	\$ (29,641,388)	\$ (24,758,106)	\$ (30,230,575)

City of Fort Smith, Arkansas

Table 2
(continued)

Changes in Net Assets
Last Three Fiscal Years
(Accrual Basis of Accounting)

	Fiscal Year		
	2003 (Restated)	2004 (Restated)	2005
General Revenues and Other Changes in Net Assets			
Governmental activities:			
Taxes			
Property taxes	\$ 16,117,664	\$ 8,812,154	\$ 8,932,234
Sales taxes	35,748,841	30,940,060	31,236,465
Utility franchise fees	5,530,957	5,986,546	6,833,462
Alcoholic beverage taxes and miscellaneous taxes	463,596	-	-
Unrestricted grants and contributions	1,411,739	1,280,450	1,277,089
Unrestricted investment earnings	813,104	740,108	1,489,322
Gain on sale of capital assets	4,174	24,462	852
Other	100,331	14,907	768,612
Transfers	(579,200)	(589,294)	(206,000)
Total governmental activities	<u>59,611,206</u>	<u>47,209,393</u>	<u>50,332,036</u>
Business-type activities:			
Sales taxes	7,817,663	15,024,256	17,372,140
Unrestricted investment earnings	2,360,225	1,417,046	2,475,149
Other	283,977	212,889	317,700
Transfers	579,200	589,294	206,000
Total business-type activities	<u>11,041,065</u>	<u>17,243,485</u>	<u>20,370,989</u>
Total primary government	<u>\$ 70,652,271</u>	<u>\$ 64,452,878</u>	<u>\$ 70,703,025</u>
Change in Net Assets			
Governmental activities	\$ 31,053,486	\$ 20,228,408	\$ 15,947,567
Business-type activities	9,957,397	19,466,364	24,524,884
Total primary government	<u>\$ 41,010,883</u>	<u>\$ 39,694,772</u>	<u>\$ 40,472,451</u>

Note: This is the third year of implementation for GASB Statement 34, therefore, additional years will be presented in the future for comparison purposes.

Table 3

City of Fort Smith, Arkansas

General Governmental Taxes by Source
Last Ten Fiscal Years

Fiscal Year	Ad Valorem Taxes	Sales Taxes (1)	Utility Franchise Fees	Total
1996	\$ 5,526,875	\$ 19,451,766	\$ 3,960,504	\$ 28,939,145
1997	5,917,006	19,732,421	4,055,915	29,705,342
1998	6,031,319	26,599,219	4,237,391	36,867,929
1999	6,242,972	29,121,222	4,224,932	39,589,126
2000	6,591,586	35,805,269	4,708,407	47,105,262
2001	7,079,863	35,872,020	5,199,799	48,151,682
2002	7,681,552	35,167,253	4,846,025	47,694,830
2003	7,909,748	35,748,841	5,530,957	49,189,546
2004	8,085,650	30,940,060	5,986,546	45,012,256
2005	8,624,431	31,236,465	6,833,462	46,694,358

- (1) The City began collecting the 1% street sales tax in November 1985, the 1/2% sales tax for bond retirement in January 1998, and the City share of the county 1% sales tax in August 1994. Only the 1% street sales tax and the City share of the county 1% sales tax was received in the governmental funds for 2005 as the bonds supported by the 1/2% sales tax were redeemed in June 2004.

City of Fort Smith, Arkansas
Fund Balances of Governmental Funds
Last Ten Fiscal Years
 (Modified Accrual Basis of Accounting)

	Fiscal Year									
	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
General Fund										
Reserved	\$ 1,837,778	\$ 2,733,524	\$ 300,758	\$ 1,541,830	\$ 1,184,473	\$ 563,055	\$ 1,101,074	\$ 1,297,557	\$ 2,850,478	\$ 3,152,121
Unreserved	1,199,441	(1,931,205)	(306,529)	1,121,448	2,836,710	3,630,696	4,431,214	5,260,425	5,911,270	7,426,514
Total general fund	\$ 3,037,219	\$ 782,319	\$ (5,771)	\$ 2,663,278	\$ 4,021,183	\$ 4,193,751	\$ 5,532,288	\$ 6,557,982	\$ 8,761,748	\$ 10,578,635
All other governmental funds										
Reserved	\$ 11,305,205	\$ 14,372,806	\$ 21,561,008	\$ 24,909,521	\$ 33,158,304	\$ 36,524,914	\$ 32,259,904	\$ 29,997,170	\$ 27,560,991	\$ 34,639,037
Unreserved, reported in:										
Special revenue funds	7,703,607	8,848,857	9,502,349	13,050,044	14,280,491	13,988,578	15,563,250	16,934,572	16,062,417	16,468,864
Capital projects funds	422,482	42,714,496	43,543,539	34,482,847	4,872,479	1,816,158	966,281	549,288	367,067	394,212
Total all other governmental funds	\$ 19,431,294	\$ 65,936,159	\$ 74,606,896	\$ 72,442,412	\$ 52,311,274	\$ 52,329,650	\$ 48,789,435	\$ 47,481,030	\$ 43,990,475	\$ 51,502,113
Total governmental fund balances	\$ 22,468,513	\$ 66,718,478	\$ 74,601,125	\$ 75,105,690	\$ 56,332,457	\$ 56,523,401	\$ 54,321,723	\$ 54,039,012	\$ 52,752,223	\$ 62,080,748

City of Fort Smith, Arkansas
Changes in Fund Balances of Governmental Funds
Last Ten Fiscal Years
(Modified Accrual Basis of Accounting)

	Fiscal Year									
	1996	1997	1998	1999	2000	2001	2002	2003 (Restated)	2004 (Restated)	2005
Revenues										
Taxes (1)	\$ 28,939,145	\$ 29,705,342	\$ 36,867,929	\$ 39,589,126	\$ 47,105,262	\$ 48,151,682	\$ 47,694,830	\$ 49,189,546	\$ 45,012,256	\$ 46,694,358
Licenses and permits	886,378	845,841	964,319	1,188,651	1,374,696	1,462,282	1,343,203	1,338,949	1,271,411	1,499,151
Intergovernmental	8,341,274	7,757,251	14,578,023	15,727,224	10,513,059	13,943,553	11,900,040	16,638,318	16,120,435	12,952,988
Fines and forfeitures	1,758,333	1,835,552	1,757,023	1,694,367	1,720,211	1,615,757	1,744,309	2,081,628	1,888,668	2,064,332
Charges for services	262,531	286,489	384,289	329,352	340,266	720,524	786,492	881,942	941,582	978,987
Interest	1,119,307	1,302,501	4,174,469	2,980,151	3,921,011	2,864,102	1,515,915	846,138	755,355	1,530,732
Contributions	618,622	639,134	695,080	1,014,852	1,032,084	930,455	831,586	785,030	774,010	808,149
Miscellaneous	191,580	136,934	944,074	195,964	166,504	360,903	590,805	858,521	696,478	250,361
Total revenues	42,117,170	42,509,044	60,365,206	62,719,687	66,173,093	70,049,258	66,407,180	72,620,072	67,460,195	66,779,058
Expenditures										
General government	2,861,021	3,016,803	3,091,735	3,542,767	4,105,006	4,791,577	5,215,541	5,741,344	5,908,918	6,879,247
Public safety	13,334,796	14,298,925	15,235,568	16,893,976	19,895,794	19,956,251	19,892,329	21,064,548	22,076,641	24,139,684
Public works	16,508,759	16,945,529	15,452,436	15,346,680	13,514,651	18,805,624	23,702,402	5,874,858	4,550,486	4,600,934
Community services	1,637,082	1,390,933	1,981,055	2,105,136	2,411,123	4,997,754	5,536,507	6,105,744	6,550,085	6,463,376
Other	1,524,650	1,707,646	1,242,962	1,749,246	1,332,628	2,004,322	1,739,626	1,763,635	2,113,409	2,334,916
Capital outlay	4,386,642	5,322,896	11,577,002	17,572,527	34,461,654	7,133,868	3,415,681	23,747,566	21,153,521	14,068,089
Debt service	-	-	2,100,000	5,520,000	6,325,000	9,220,000	8,178,002	7,785,000	6,540,000	-
Principal	-	252,333	2,140,216	1,965,305	1,673,421	1,591,728	937,122	519,078	128,042	-
Interest	-	42,935,065	52,820,974	64,693,637	83,719,277	68,301,124	68,617,210	72,601,573	69,021,102	58,486,246
Total expenditures	40,252,950	42,935,065	52,820,974	64,693,637	83,719,277	68,301,124	68,617,210	72,601,573	69,021,102	58,486,246
Excess (deficiency) of revenues over (under) expenditures	1,864,220	(426,021)	7,544,232	(1,975,950)	(17,546,184)	1,748,134	(2,210,030)	18,499	(1,560,907)	8,292,812
Other financing sources and (uses)										
Transfers in	663,612	729,881	2,080,305	4,162,258	2,449,777	3,296,518	2,263,625	1,939,996	2,459,809	4,101,090
Transfers out	(1,031,500)	(1,477,311)	(1,741,890)	(1,681,743)	(3,676,826)	(4,853,708)	(2,844,728)	(2,519,196)	(2,798,714)	(4,307,000)
Proceeds from bond issuance	-	45,423,416	-	-	-	-	-	-	-	-
Capital leases	-	-	338,415	2,480,515	(1,227,049)	(1,557,190)	589,455	277,990	613,023	1,241,713
Total other financing sources (uses)	(367,888)	44,675,986	338,415	2,480,515	(1,227,049)	(1,557,190)	8,352	(301,210)	274,118	1,035,803
Net change in fund balances	\$ 1,496,332	\$ 44,249,965	\$ 7,882,647	\$ 504,565	\$ (18,775,233)	\$ 190,944	\$ (2,201,678)	\$ (282,711)	\$ (1,286,789)	\$ 9,328,615
Debt service as a % of noncapital expenditures		0.7%	10.3%	15.9%	16.2%	17.3%	14.0%	17.0%	13.9%	-

(1) See Table 3 for detail of tax revenues.

City of Fort Smith, Arkansas
Property Tax Levies and Collections
Last Ten Fiscal Years

Fiscal Year	Total Tax Levy (1)	Current Tax Collections	Percent of Levy Collections	Delinquent Tax Collections	Total Tax Collections	Collection Percent of Current Levy	Outstanding Delinquent Taxes	Outstanding Delinquent Taxes as a Percent of Current Levy
1996	\$ 5,333,661	\$ 5,188,597	97.28%	\$ 145,282	\$ 5,333,879	100.00%	\$ 178,399	3.34%
1997	5,724,797	5,532,859	96.65%	195,923	5,728,782	100.07%	221,049	3.86%
1998	5,794,689	5,622,468	97.03%	173,623	5,796,091	100.02%	227,176	3.92%
1999	5,925,809	5,829,854	98.38%	181,543	6,011,397	101.44%	237,037	4.00%
2000	6,460,708	6,158,209	95.32%	29,427	6,187,636	95.77%	233,346	3.61%
2001	6,348,763	6,004,289	94.57%	121,353	6,125,642	96.49%	56,473	0.89%
2002	6,858,241	6,403,187	93.36%	208,685	6,611,872	96.41%	269,196	3.93%
2003	7,668,913	6,593,969	85.98%	286,387	6,880,356	89.72%	298,067	3.89%
2004	7,805,688	6,839,388	87.62%	268,913	7,108,301	91.07%	306,752	3.93%
2005	7,544,588	7,016,787	93.00%	270,725	7,287,512	96.59%	420,214	5.57%

(1) Total tax levy is based upon valuation of previous year and has been adjusted for the homestead tax relief for property owners which became effective for the 2001 fiscal year. The tax levy for this schedule represents the City's levy for its General Fund, police pension plan, and fire pension plan. The levy does not include the road millage assessed by Sebastian County of which the City receives one-half the collections from the county levy in its Street Maintenance Fund, a special revenue fund.

Table 7

City of Fort Smith, Arkansas
Assessed and Estimated Actual Value of Taxable Property
Last Ten Fiscal Years

Fiscal Year (1)	Real Property		Personal Property		Total		Ratio of Total Assessed to Total Estimated Actual
	Assessed Value	Estimated Actual Value	Assessed Value	Estimated Actual Value	Assessed Value	Estimated Actual Value	
1996	\$ 500,702,647	\$ 2,503,513,235	\$ 220,326,778	\$ 1,101,633,890	\$ 721,029,425	\$ 3,605,147,125	20.00%
1997	506,720,849	2,533,604,245	225,555,162	1,127,775,810	732,276,011	3,661,380,055	20.00%
1998	522,018,450	2,610,092,250	239,096,910	1,195,484,550	761,115,360	3,805,576,800	20.00%
1999	535,068,911	2,675,344,555	245,708,442	1,228,542,210	780,777,353	3,903,886,765	20.00%
2000	607,508,450	3,037,542,250	262,110,959	1,310,554,795	869,619,409	4,348,097,045	20.00%
2001	636,575,485	3,182,877,425	293,983,422	1,469,917,110	930,558,907	4,652,794,535	20.00%
2002	643,415,789	3,217,078,945	295,817,178	1,479,085,890	939,232,967	4,696,164,835	20.00%
2003	674,592,414	3,372,962,070	301,118,605	1,505,593,025	975,711,019	4,878,555,095	20.00%
2004	725,381,058	3,626,905,290	307,760,220	1,538,801,100	1,033,141,278	5,165,706,390	20.00%
2005	733,760,780	3,668,803,900	346,331,415	1,731,657,075	1,080,092,195	5,400,460,975	20.00%

(1) Fiscal year is year of valuation.

City of Fort Smith, Arkansas
Property Tax Rates and Tax Levies
All Direct and Overlapping Governments
Last Ten Fiscal Years

Fiscal Year (1)	Overlapping Rates												Total Direct & Overlapping Rates				
	City of Fort Smith			Sebastian County			Fort Smith School District			FS Public Library			U of A Fort Smith			Real Property	Personal Property
	Real Property	Personal Property		Real Property	Personal Property		Real Property	Personal Property		Real Property	Personal Property		Real Property	Personal Property			
1996	\$ 0.70	\$ 0.70	\$ 0.80	\$ 3.65	\$ 3.65	\$ 0.10	\$ 0.10	\$ 0.10	\$ 0.53	\$ 0.53	\$ 5.78	\$ 5.78	\$ 5.78	\$ 5.78			
1997	0.70	0.70	0.80	3.65	3.65	0.10	0.10	0.10	0.53	0.53	5.78	5.78	5.78	5.78			
1998	0.70	0.70	0.80	3.65	3.65	0.10	0.10	0.10	0.53	0.53	5.78	5.78	5.78	5.78			
1999	0.70	0.70	0.80	3.65	3.65	0.10	0.10	0.10	0.53	0.53	5.78	5.78	5.78	5.78			
2000	0.70	0.70	0.80	3.65	3.65	0.10	0.10	0.10	0.53	0.53	5.78	5.78	5.78	5.78			
2001	0.70	0.70	0.80	3.65	3.65	0.10	0.10	0.10	0.53	0.53	5.78	5.78	5.78	5.78			
2002	0.70	0.70	0.80	3.65	3.65	0.10	0.10	0.10	0.00	0.00	5.25	5.25	5.25	5.25			
2003	0.70	0.70	0.80	3.65	3.65	0.10	0.10	0.10	0.00	0.00	5.25	5.25	5.25	5.25			
2004	0.70	0.70	0.80	3.65	3.65	0.10	0.10	0.10	0.00	0.00	5.25	5.25	5.25	5.25			
2005	0.70	0.70	0.80	3.65	3.65	0.10	0.10	0.10	0.00	0.00	5.25	5.25	5.25	5.25			

Fiscal Year (1)	Overlapping Rates												Total				
	City of Fort Smith			Sebastian County			Fort Smith School District			FS Public Library			U of A Fort Smith			Real Property	Personal Property
	Real Property	Personal Property		Real Property	Personal Property		Real Property	Personal Property		Real Property	Personal Property		Real Property	Personal Property			
1996	\$ 7.00	\$ 7.00	\$ 8.00	\$ 36.50	\$ 36.50	\$ 1.00	\$ 1.00	\$ 1.00	\$ 5.25	\$ 5.25	\$ 57.75	\$ 57.75	\$ 57.75	\$ 57.75			
1997	7.00	7.00	8.00	36.50	36.50	1.00	1.00	1.00	5.25	5.25	57.75	57.75	57.75	57.75			
1998	7.00	7.00	8.00	36.50	36.50	1.00	1.00	1.00	5.25	5.25	57.75	57.75	57.75	57.75			
1999	7.00	7.00	8.00	36.50	36.50	1.00	1.00	1.00	5.25	5.25	57.75	57.75	57.75	57.75			
2000	7.00	7.00	8.00	36.50	36.50	1.00	1.00	1.00	5.25	5.25	57.75	57.75	57.75	57.75			
2001	7.00	7.00	8.00	36.50	36.50	1.00	1.00	1.00	0.00	0.00	52.50	52.50	52.50	52.50			
2002	7.00	7.00	8.00	36.50	36.50	1.00	1.00	1.00	0.00	0.00	52.50	52.50	52.50	52.50			
2003	7.00	7.00	8.00	36.50	36.50	1.00	1.00	1.00	0.00	0.00	52.50	52.50	52.50	52.50			
2004	7.00	7.00	8.00	36.50	36.50	1.00	1.00	1.00	0.00	0.00	52.50	52.50	52.50	52.50			
2005	7.00	7.00	8.00	36.50	36.50	1.00	1.00	1.00	0.00	0.00	52.50	52.50	52.50	52.50			

(1) Fiscal year is year of levy.

Table 9

City of Fort Smith, Arkansas

**Principal Taxpayers
Current Year and Nine Years Ago
(Unaudited)**

Name of Taxpayer (1)	2005			1996		
	Taxable Assessed Valuation (2)	Rank	Percentage of Total Assessed Valuation	Taxable Assessed Valuation (2)	Rank	Percentage of Total Assessed Valuation
Quanex Corp. (Mac Steel)	\$ 21,494,832	1	2.08%	\$ 11,367,635	1	1.68%
Whirlpool Corporation	20,987,000	2	2.03%			
Gerber Products Company	11,153,565	3	1.08%			
Beverly Corp.	7,744,040	4	0.75%			
Rheem Mfg. Company	7,270,715	5	0.70%			
CMFS Limited Partnership (Central Mall)	6,961,500	6	0.67%	6,733,995	5	1.00%
Hiram Walker & Sons, Inc.	6,813,665	7	0.66%	6,180,135	8	0.92%
Arkansas Best Corporation	4,118,010	8	0.40%	6,502,635	6	0.96%
Medical Office Buildings of Arkansas, LLC	3,549,750	9	0.34%			
Gerber Products Company	3,308,820	10	0.32%	6,969,680	4	1.03%
OK Foods, Inc.	3,201,305	11	0.31%			
Cooper Clinic	3,141,690	12	0.30%			
Westphal Properties	3,044,610	13	0.29%			
The Park Apartments of Fort Smith	2,792,810	14	0.27%			
Oklahoma Gas & Electric Co.				11,041,456	2	1.64%
Southwestern Bell Telephone				7,139,384	3	1.06%
Arkansas Oklahoma Gas Corp.				5,830,946	9	0.86%
Planters Lifesavers				6,259,950	7	0.93%
James River (Dixie)				4,338,360	10	0.64%
	\$ 105,582,312		11.24%	\$ 72,364,176		10.72%

(1) Sebastian County Assessor's Office.

(2) Property taxes collected in 2005 are based upon 2004 assessed valuation of \$1,033,141,278. Property taxes collected in 1996 were based upon the 1995 assessed valuation of \$674,770,670.

Table 10

City of Fort Smith, Arkansas

Computation of Direct and Estimated Overlapping Debt
 December 31, 2005
 (Unaudited)

<u>Taxing Jurisdiction</u>	<u>Total Outstanding Bonded Debt (1)</u>	<u>Estimated Percent Applicable (2)</u>	<u>Direct and Estimated Overlapping Bonded Debt</u>
Direct:			
City of Fort Smith	\$ 42,995,000	100%	\$ 42,995,000
Overlapping:			
Fort Smith Special School District	26,851,129	100%	26,851,129
Greenwood School District	34,445,000	5%	1,722,250
Sebastian County	<u>2,420,000</u>	76%	<u>1,839,200</u>
Total Overlapping	<u>63,716,129</u>		<u>30,412,579</u>
Total direct and estimated overlapping bonded debt	<u>\$ 106,711,129</u>		<u>\$ 73,407,579</u>
Ratio, direct and estimated overlapping debt to fiscal 2004 assessed valuation (3)			7%
Per capita direct and estimated overlapping bonded debt (4)			<u>\$ 915</u>

(1) Excluding self-supporting debt.
 (2) The percentage applicable to the City of Fort Smith is based on the relative assessed values within the city.
 (3) From Table 7, \$1,033,141,278.
 (4) Based on 2000 census population of 80,268.

Table 11

City of Fort Smith, Arkansas
 Computation of Legal Debt Margin
 Last Ten Fiscal Years

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Net assessed value (1)	\$ 721,029,425	\$ 731,776,011	\$ 761,115,360	\$ 780,777,353	\$ 869,619,409	\$ 930,558,907	\$ 939,232,967	\$ 975,711,019	\$ 1,033,141,278	\$ 1,080,092,195
Plus exempt property (2)	-	-	-	-	-	-	-	-	-	-
Total assessed value	\$ 721,029,425	\$ 731,776,011	\$ 761,115,360	\$ 780,777,353	\$ 869,619,409	\$ 930,558,907	\$ 939,232,967	\$ 975,711,019	\$ 1,033,141,278	\$ 1,080,092,195
Debt limit - 25% of total assessed value (3)	\$ 180,257,356	\$ 182,944,003	\$ 190,278,840	\$ 195,194,338	\$ 217,404,852	\$ 232,639,727	\$ 234,808,242	\$ 243,927,755	\$ 258,285,320	\$ 270,023,049
Amount of debt applicable to limit (4)	-	-	-	-	-	-	-	-	-	-
Debt Margin	\$ 180,257,356	\$ 182,944,003	\$ 190,278,840	\$ 195,194,338	\$ 217,404,852	\$ 232,639,727	\$ 234,808,242	\$ 243,927,755	\$ 258,285,320	\$ 270,023,049

(1) From Table 7.
 (2) Not available.
 (3) Limitation is established by state statute.
 (4) Includes general obligation debt net of assets available for bond retirement.

City of Fort Smith, Arkansas
Ratios of Outstanding Debt by Type
Last Ten Fiscal Years

Fiscal Year	Governmental Activities			Business-Type Activities				Total Primary Government	Percentage of Personal Income (1)	Per Capita (1)
	Sales Tax Bonds	Capital Leases	Revenue Bonds	Sales Tax Bonds	Capital Leases	Revenue Bonds				
1996	\$ -	-	\$ 37,165,000	\$ -	-	\$ -	\$ 37,165,000	0.8%	\$ 511	
1997	45,655,000	-	35,560,000	-	-	-	81,215,000	1.7%	1,116	
1998	43,555,000	-	33,965,000	-	-	-	77,520,000	1.5%	1,065	
1999	38,035,000	-	58,600,000	-	-	-	96,635,000	1.8%	1,327	
2000	31,710,000	-	55,910,000	-	-	-	87,620,000	1.5%	1,092	
2001	22,490,000	-	51,170,000	-	-	80,000,000	153,660,000	2.4%	1,914	
2002	14,325,000	576,453	154,200,000	73,680,000	-	-	242,781,453	3.8%	3,025	
2003	6,540,000	667,331	151,045,000	68,415,000	440,757	-	227,108,088	3.4%	2,829	
2004	-	891,735	144,755,000	58,270,000	298,315	-	204,215,050	2.9%	2,544	
2005	-	1,442,517	146,795,000	42,995,000	562,877	-	191,795,394	2.6%	2,389	

Note: Details regarding the City's outstanding debt can be found in the notes to the financial statements.

(1) See Table 14 for the personal income and population data.

City of Fort Smith, Arkansas

Revenue Bonds Debt Service Coverage
Last Ten Fiscal Years

	Fiscal Year	Revenue (1)	Direct Operating Expenses (2)	Net Revenue Available for Debt Service	Debt Service Requirements			Coverage
					Principal	Interest (3)	Total	
Water and Sewer System	1996	14,233,369	10,395,390	3,837,979	1,040,000	1,417,850	2,457,850	156%
	1997	14,109,692	10,787,499	3,322,193	1,080,000	1,373,600	2,453,600	135%
	1998	14,595,971	11,178,704	3,417,267	1,125,000	1,325,023	2,450,023	139%
	1999	17,666,495	11,906,342	5,760,153	1,170,000	1,610,697	2,780,697	207%
	2000	23,046,282	12,557,120	10,489,162	2,050,000	2,561,255	4,611,255	227%
	2001	23,167,106	13,753,378	9,413,728	2,140,000	1,832,688	3,972,688	237%
	2002	28,693,062	14,727,485	13,965,577	2,240,000	2,624,305	4,864,305	287%
	2003	30,461,180	15,104,962	15,356,218	2,370,000	3,990,161	6,360,161	241%
	2004	30,676,280	16,339,330	14,336,950	5,070,000	2,931,611	8,001,611	179%
	2005	32,668,644	17,116,764	15,551,880	5,700,000	3,016,704	8,716,704	178%
Solid Waste System	1996	\$7,253,381	\$5,305,828	\$1,947,553	\$505,000	\$698,718	\$1,203,718	162%
	1997	7,305,144	5,819,320	1,485,824	525,000	674,991	1,199,991	124%
	1998	7,489,476	5,967,537	1,521,939	450,000	617,605	1,067,605	143%
	1999	8,220,315	6,533,853	1,686,462	610,000	555,378	1,165,378	145%
	2000	10,155,226	7,134,530	3,020,696	635,000	528,529	1,163,529	260%
	2001	9,591,135	7,345,440	2,245,695	665,000	499,594	1,164,594	193%
	2002	9,803,303	7,054,152	2,749,151	975,000	302,660	1,277,660	215%
	2003	9,511,187	7,003,747	2,507,440	785,000	277,400	1,062,400	236%
	2004	10,622,944	8,069,676	2,553,268	805,000	260,782	1,065,782	240%
2005	11,441,729	7,775,933	3,665,796	820,000	239,814	1,059,814	346%	

(1) For purposes of this schedule, revenue includes operating revenue, interest revenue, and other nonoperating revenue, net.

(2) Excludes depreciation expense and amortization expense.

(3) Total interest paid for the fiscal year is presented in this schedule for revenue bonds only and it includes capitalized interest.

Table 14

City of Fort Smith, Arkansas

Demographic Statistics
Last Ten Fiscal Years

Fiscal Year	City Population (1)	Personal Income (in thousands)	Per Capita Income (2)	Median Age	Education Level in Years of Schooling (3)	School Enrollment (4)	Unemployment Rate (2)
1996	72,798	\$4,675,975	\$21,334	34.0	12	12,763	5.3%
1997	72,798	4,920,951	22,088	34.0	12	12,741	5.2%
1998	72,798	5,229,608	23,408	34.0	12	12,496	5.3%
1999	72,798	5,487,943	21,029	34.0	12	12,430	4.0%
2000	80,268	5,889,238	22,270	34.0	12	12,637	3.6%
2001	80,268	6,278,360	22,676	34.0	12	12,596	4.2%
2002	80,268	6,403,948	23,021	35.0	12	12,844	4.9%
2003	80,268	6,628,057	26,624	35.2	12	12,871	5.4%
2004	80,268	6,959,460 *	28,010	35.3	12	12,921	5.0%
2005	80,268	7,279,595 *	26,874	35.4	12	13,373	4.2%

Data sources:

- (1) Bureau of the Census
 - (2) U. S. Department of Commerce
 - (3) Community Development Department's estimate.
 - (4) Fort Smith School District
- * Estimated

Table 15

City of Fort Smith, Arkansas

Principal Employers
Continuing Disclosure Requirement
Current Year and Nine Years Ago

Employer	2005			1996		
	Employees	Rank	Percentage of Total City Employment	Employees	Rank	Percentage of Total City Employment
O K Foods	4,748	1	3.6%	2,600	2	2.2%
Whirlpool Corporation	4,600	2	3.5%	3,900	1	3.3%
Sparks Regional Medical Center	2,150	3	1.6%	1,900	3	1.6%
St. Edward Mercy Medical Center	1,800	4	1.4%	1,452	6	1.2%
Rheem-Ruud	1,774	5	1.3%	1,590	4	1.3%
Fort Smith Public Schools	1,702	6	1.3%	1,456	5	1.2%
Baldor Electric	1,700	7	1.3%	1,366	7	1.2%
Arkansas Best Corp.	900	8	0.7%	733	8	0.6%
City of Fort Smith	873	9	0.7%	710	10	0.6%
Cooper Clinic	775	10	0.6%	335	14	0.3%
University of Arkansas at Fort Smith	772	11	0.6%	625	11	0.5%
Gerber Products	761	12	0.6%	540	12	0.5%
Trane Company	680	13	0.5%	725	9	0.6%
Beverly Enterprises	600	14	0.5%	450	13	0.4%
Bost Human Development Services	600	15	0.5%	-		
Riverside Furniture Corp.	550	16	0.4%	1,450	6	1.2%
Total	<u>24,985</u>		<u>18.8%</u>	<u>19,832</u>		<u>16.8%</u>

Data sources:

Chamber of Commerce

U. S. Department of Labor, employment totals:

2005 132,800

1996 117,875

Table 16

City of Fort Smith, Arkansas

Full-time Equivalent City Government Employees by Function
Last Ten Fiscal Years

Function	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
General government	97	93	101	102	109	113	118	122	123	124
Public safety										
Police										
Officers	144	144	148	148	152	150	150	154	160	160
Civilians	40	40	43	43	43	45	47	46	47	47
Fire										
Firefighters and officers	119	119	119	122	125	125	125	125	125	126
Civilians	3	3	3	3	3	3	3	3	3	3
Public Works										
Operations	5	4	5	5	5	5	5	5	5	5
Streets	44	44	44	44	44	46	46	46	46	46
Traffic control	10	11	12	12	12	13	13	13	12	13
Parks and recreation	23	24	28	29	36	44	44	45	47	53
Transit	-	22	24	30	28	34	35	35	35	35
Water and sewer	148	156	162	169	181	181	181	182	183	185
Sanitation	77	79	80	80	85	84	83	79	75	76
Total	710	739	769	787	823	844	850	855	861	873

Table 17

City of Fort Smith, Arkansas

Capital Asset Statistics by Function
Last Ten Fiscal Years

Function	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Police:										
Stations	1	1	1	1	1	1	1	1	1	1
Patrol units	12	12	12	12	16	20	20	20	20	20
Fire:										
Stations	10	10	10	10	10	10	10	10	10	10
Apparatus	19	19	19	20	20	21	21	22	22	22
Streets	493	497	497	497	532	541	603	582	590	558
Streets (miles)	4,938	5,011	5,011	5,011	5,350	5,383	5,383	5,589	5,285	5,954
Streetlights	106	106	106	106	122	122	123	123	133	136
Traffic signals										
Parks and recreation										
Parks acreage (square feet)	128	128	128	128	287	292	295	295	315	260
Parks	9	9	9	9	11	18	20	20	26	26
Swimming pools	2	2	2	2	2	2	1	1	2	2
Water splashpad										
Tennis courts	12	14	14	14	14	14	14	14	14	14
Skatepark										
Community centers	2	2	2	2	2	1	1	1	1	1
Convention center -										
Theater - seats	1,557	1,513	1,513	1,513	1,375	1,375	1,375	1,375	1,375	1,375
Theater - area (square feet)	4,200	4,200	4,200	4,200	4,200	4,200	4,200	4,200	4,200	4,200
Exhibit Hall - area (square feet)	13,200	13,200	13,200	13,200	40,000	40,000	40,000	40,000	40,000	40,000
Transit buses	6	6	9	11	11	18	18	18	17	20
Water and sewer										
Water mains (miles)	565	565	565	570	570	576	576	584	584	584
Average daily production capacity (thousands of gallons)	42,000	42,000	42,000	45,000	45,000	45,000	55,000	55,000	55,000	55,000
Average daily consumption (thousands of gallons)	22,278	22,278	22,278	41,395	47,297	48,686	30,656	45,379	45,379	45,536
Sanitary sewers (miles)	470	470	470	470	470	481	481	488	503	503
Storm sewers	NA	NA	NA	NA	NA	NA	NA	NA	7,900	7,900
Sanitation										
Collection trucks	58	58	58	59	58	56	52	52	52	52
Landfill capacity (in cubic yards) (1)	11,857,000	11,357,000	10,907,000	10,550,000	9,790,000	9,506,000	9,230,000	68,100,000	67,007,000	67,445,222

NA - not available
 (1) During 2003, the City acquired an additional 400 acres of land for the landfill. The landfill permit was expanded from a storage capacity of 13,507,000 cubic yards to 72,607,000 cubic yards. The 2005 engineering survey indicated that the capacity remaining at the landfill increased between 2004 and 2005 due to the construction of

Table 18

City of Fort Smith, Arkansas

Operating Indicators by Function
Last Ten Fiscal Years

Function	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Police:										
Physical arrests	12,135	11,148	9,512	8,537	8,204	6,877	7,865	8,113	9,362	10,429
Parking violations	19,939	22,538	22,538	21,111	14,819	15,424	12,308	11,722	10,905	3,367
Traffic violations	20,711	19,075	15,476	16,055	15,563	16,249	16,191	18,466	19,287	19,289
Fire										
Number of calls answered	1,638	1,589	4,535	4,751	5,988	5,953	6,517	7,022	6,699	6,461
Transit										
Passenger trips	N/A	29,593	71,023	93,791	111,459	149,341	147,620	158,652	163,503	167,186
Water and sewer										
New connections	427	370	389	506	506	456	529	529	438	438
Average daily production (thousands of gallons)	22,278	22,278	26,629	26,629	27,821	29,511	29,511	29,782	29,782	29,161
Average daily sewage flow (thousands of gallons)	13,800	13,800	13,800	13,800	13,800	16,900	15,130	15,500	15,500	15,500
Sanitation										
Waste disposal (cubic yards/day)	2,965	3,239	3,196	3,772	3,049	3,020	2,586	2,401	3,011	3,475

Note: Transit operations began in August 1997.

Table 19

City of Fort Smith, Arkansas

**Local Sales and Use Tax Collections
Continuing Disclosure Requirement
Last Ten Fiscal Years**

<u>Fiscal Year</u>	<u>1% City Sales & Use Tax Allocated for Streets (1)</u>	<u>City Share 1% County Sales & Use Tax (2)</u>	<u>1% City Sales & Use Tax Allocated for Bonds (3)</u>	<u>Total</u>
1996	\$ 13,379,605	\$ 10,652,914	\$ -	\$ 24,032,519
1997	13,504,781	10,925,683	-	24,430,464
1998	13,936,617	11,243,858	6,253,603	31,434,078
1999	14,689,273	11,812,187	7,344,637	33,846,097
2000	15,453,552	12,624,941	7,726,776	35,805,269
2001	15,728,836	12,278,766	12,387,128	40,394,730
2002	15,502,200	11,913,953	15,502,200	42,918,353
2003	15,635,325	12,295,853	15,635,326	43,566,504
2004	16,465,972	13,032,372	16,465,972	45,964,316
2005	17,372,140	13,864,325	17,372,140	48,608,605
Total	\$ 151,668,301	\$ 120,644,852	\$ 98,687,782	\$ 371,000,935

(1) The 1% City Sales and Use Tax allocated for construction, repair and maintenance of street, bridge and associated drainage improvements was initially assessed in 1985 for a period of 10 years. The tax was reaffirmed by the citizens in 1995 for an additional 10 years. The tax is accounted for in the Sales Tax Fund, a special revenue fund.

(2) Sebastian County began assessing a 1% Sales and Use Tax August 1, 1994. The City receives a share of the tax based upon its population within Sebastian County. The City allocates its share of the tax to its General Fund. The tax has been reauthorized through 2014.

(3) The City currently assesses two 1/2 % City sales and use taxes to total 1% for bond redemption. The first 1/2% is allocated to redeem the City of Fort Smith Sales and Use Tax Bonds, Series 1997. The 1997 Bonds were issued to fund the construction for the convention center, public library facilities, and riverfront park projects. The tax became effective January 1, 1998. The second 1/2% is allocated to redeem the City of Fort Smith Sales and Use Tax Bonds, Series 2001. The 2001 Bonds were issued to fund a portion of the Lake Fort Smith water supply expansion project and to fund wastewater improvements. The tax for the 2001 Bonds became effective May 1, 2001. The 1997 Bonds were redeemed in June 2004 and now the entire 1% tax is allocated to the repayment of the 2001 Bonds.

Table 20

City of Fort Smith, Arkansas

**Solid Waste System Statistics Continuing Disclosure Requirement
Last Ten Fiscal Years**

<u>Fiscal Year</u>	<u>Annual # Sanitation System Customers</u>	<u>Cubic Yardage of Waste at Landfill</u>	<u>Useful Life of Landfill Remaining</u>	<u>Remaining Storage Capacity at Landfill</u>
1996	220,150	1,076,172	17 yrs	11,857,000 cubic yards
1997	221,300	1,175,821	16 yrs	11,357,000 cubic yards
1998	223,480	1,160,034	15 yrs	10,907,000 cubic yards
1999	272,616	1,369,106	14 yrs	10,550,000 cubic yards
2000	236,376	1,106,718	13 yrs	9,790,000 cubic yards
2001	276,564	1,096,082	12 yrs	9,506,000 cubic yards
2002	277,896	938,670	11 yrs	9,230,000 cubic yards
2003	290,532	871,647	42 yrs	68,100,000 cubic yards (1)
2004	299,412	1,092,855	41 yrs	67,007,000 cubic yards
2005	300,624	1,263,149	40.5 yrs	67,445,222 cubic yards (2)

(1) During 2003, the City's landfill permit was expanded to allow for a total storage capacity of approximately 72,607,000 cubic yards. The total capacity prior to this was 13,507,000 cubic yards.

(2) The 2005 engineering report indicates that the amount of remaining storage is greater at the end of 2005 than at the end of 2004.

Table 21

City of Fort Smith, Arkansas

**Water and Sewer Statistics
Continuing Disclosure Requirement**

**Water Use and Sewage Flow
Last Five Fiscal Years
(Unaudited)**

<u>Fiscal Year</u>	<u>Average Daily Water Use in Gallons</u>	<u>Maximum Daily Water Use in Gallons</u>	<u>Total Water Use for Year in Gallons</u>	<u>Average Daily Sewage Flow in Gallons</u>
2001	29,782,000	45,379,000	10,870,292,000	15,500,000
2002	28,240,000	43,503,000	9,584,920,620	14,250,000
2003	27,384,000	41,247,000	9,995,291,000	15,400,000
2004	26,986,000	37,617,000	9,856,258,000	14,760,000
2005	29,161,000	45,536,000	10,539,665,000	15,500,000

Water Users by Category
Last Five Fiscal Years
(Unaudited)

<u>Fiscal Year</u>	<u>Residential</u>	<u>Commercial</u>	<u>Wholesale</u>	<u>Other</u>	<u>Total</u>
2001	25,667	4,021	12	10	29,710
2002	25,877	4,022	12	10	29,921
2003	25,933	3,931	12	10	29,886
2004	26,043	3,989	12	10	30,054
2005	26,479	3,979	12	10	30,480

Sewer Users by Category
Last Five Fiscal Years
(Unaudited)

<u>Fiscal Year</u>	<u>Residential</u>	<u>Commercial</u>	<u>Government</u>	<u>Total</u>
2001	27,075	3,733	10	30,818
2002	27,129	3,711	10	30,850
2003	25,732	3,747	10	29,489
2004	25,149	3,869	10	29,028
2005	25,443	3,875	10	29,328

10 Largest Users of the System
For the Fiscal Year Ended December 31, 2004 (1)
(Unaudited)

<u>Entity</u>	<u>Water</u>	<u>Sewer</u>	<u>Total</u>	<u>% of Gross Revenues</u>
City of Van Buren	\$ 2,875,957	\$ 0	\$ 2,875,957	10.0%
OK Foods	1,783,009	108,699	1,891,708	6.6%
Gerber Products	1,026,532	670,550	1,697,082	5.9%
St. Edwards Med Center	212,502	253,614	466,116	1.6%
Sparks Medical Center	192,846	153,966	346,812	1.2%
Quanex Macsteel	236,835	3,443	240,278	0.8%
Whirlpool	117,829	105,686	223,515	0.8%
Southern Steel & Wire	94,831	125,969	220,800	0.8%
James River Dixie	47,912	62,426	110,338	0.4%
Hiland Dairy	41,895	10,572	52,467	0.2%
Top Ten Users	\$ 6,630,148	\$ 1,494,925	\$ 8,125,073	28.4%

(1) The water and sewer revenue bond covenants require the 10 largest users of the system be presented for the preceding fiscal year.



**Independent Accountants' Report on Compliance
With Certain State Acts**

The Honorable Mayor and Board of Directors
City of Fort Smith, Arkansas
Fort Smith, Arkansas

We have examined management's assertions that the City of Fort Smith, Arkansas complied with the requirements of Arkansas Act 15 of 1985 and the following Arkansas statutes during the year ended December 31, 2005.

- (a) *Municipal Accounting Law, Act 159 of 1973, Act 616 of 1979 and Act 308 of 1977*
(Arkansas Statutes 19-5301 – 19-5317);
- (b) *Municipal Courts, Police Courts, City Courts and Justice of the Peace Courts Accounting Law of 1977, Acts 677 and 776 of 1985, Act 904 of 1991 and Act 1256 of 1996.*
(Arkansas Statutes 22-1101 – 22-1108);
- (c) *Municipal Court and Police Department Uniform Filing Fees and Court Cost, Act 1341 of 1997;*
- (d) *Bonding of Municipal Officers and Employees, Act 338 of 1955, Act 677 of 1975, Act 940 of 1977 and Act 1014 of 1987*
(Arkansas Statutes 13-412 – 13-412.3) (Replaced by Act 5 of 1985);
- (e) *Improvement Contracts over \$10,000, Act 159 of 1949, Act 183 of 1957, Act 477 of 1961, Act 370 of 1977, Act 266 of 1981, Act 871 of 1983, Acts 758 and 759 of 1987, Act 936 of 1989, Act 728 of 1991, Act 645 of 1993 and Act 1319 of 1995*
(Arkansas Statutes 14-611 – 14-614);
- (f) *Budgets, Purchases over \$2,000; Payments of Claims, Etc., Act 28 of 1959, Act 154 of 1979, Acts 344 and 926 of 1981, Act 745 of 1985 and Act 812 of 1995*
(Arkansas Statutes 19-4421 – 19-4430);
- (g) *Investment of Public Funds, Act 273 of 1943, Act 106 of 1973, Act 402 of 1995, Act 800 of 1997 and Act 1341 of 2000*
(Arkansas Statutes 13-901 – 13-904); and

The Honorable Mayor and Board of Directors
City of Fort Smith, Arkansas
Page 2

- (h) Deposit of Public Funds, Act 21 of 1935, Acts 57 and 62 of 1945, Act 122 of 1947, Act 18 of 1964, Acts 89 and 107 of 1973, Act 250 of 1987, Act 459 of 1991 and Acts 232 and 700 of 1995
(Arkansas Statutes 13-801 – 13-805).

Management is responsible for the City's compliance with these requirements. Our responsibility is to express an opinion on the City's compliance based upon our examination.

Our examination was made in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the City's compliance with specified requirements.

In our opinion, the City of Fort Smith, Arkansas complied, in all material respects, with the aforementioned requirements for the year ended December 31, 2005.

This report is intended solely for the information and use of the Mayor, Board of Directors, management and the state of Arkansas and is not intended to be and should not be used by anyone other than these specified parties.

BKD, LLP

March 24, 2006



Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*

The Honorable Mayor and Board of Directors
City of Fort Smith, Arkansas
Fort Smith, Arkansas

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Fort Smith, Arkansas as of and for the year ended December 31, 2005, which collectively comprise its basic financial statements and have issued our report thereon dated March 24, 2006, which contained an explanatory paragraph regarding a change in accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The Honorable Mayor and Board of Directors
City of Fort Smith, Arkansas
Page 2

We noted certain matters that we reported to the City's management in a separate letter dated March 24, 2006.

This report is intended solely for the information and use of the Mayor, Board of Directors, management and federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

BKD, LLP

March 24, 2006



Independent Accountants' Report on Compliance and Internal Control Over Compliance with Requirements Applicable to Major Federal Awards Programs

The Honorable Mayor and Board of Directors
City of Fort Smith, Arkansas
Fort Smith, Arkansas

Compliance

We have audited the compliance of City of Fort Smith, Arkansas with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2005. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the compliance of City of Fort Smith, Arkansas based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, City of Fort Smith, Arkansas complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2005.

Internal Control Over Compliance

The management of City of Fort Smith, Arkansas is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

The Honorable Mayor and Board of Directors
City of Fort Smith, Arkansas
Page 2

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Mayor, Board of Directors, management and federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

BKD, LLP

March 24, 2006

City of Fort Smith
 Schedule of Expenditures of Federal and State Awards
 Year Ended December 31, 2005

<u>Granting Agency/Grant Program</u>	<u>Federal CFDA Number</u>	<u>Grant Number</u>	<u>Expenditures</u>
Federal Awards			
Department of Housing and Urban Development			
Direct Federal Payments:			
Community Development Block Grants:			
Twenty Ninth Entitlement	14.218	B03MC050003	\$ 771,220
Home Investment Partnership Act	14.239	M01MC050202	67,530
Home Investment Partnership Act	14.239	M02MC050202	1,550
Home Investment Partnership Act	14.239	M03MC050202	287,927
Home Investment Partnership Act	14.239	M04MC050202	50,770
ED I Special Projects	14.246	B-04-SP-AR-0058	<u>33,733</u>
Total Department of Housing and Urban Development			<u>1,212,730</u>
Department of Justice			
200 Justice Assistance	16.738	2004-DJ-BX-445	112,910
BJA/Bullet Proof Vest Program	16.607	BVP02011932	1,129
Department of Justice Drug Enforcement Task Force			54,160
Organized Crime Drug Enforcement Task Force	N/A	WC AR W 044	<u>21,209</u>
Total Department of Justice			<u>189,408</u>
U.S. Department of Transportation:			
Passed through the Arkansas Highway Transportation Department:			
Federal Transit Administration Grant:			
Facility Grant	20.500	AR030026	22,488
Operating and Capital	20.507	AR090X062	1,016,090
Job Access/Reverse Commute	20.516	AR37X006	<u>53,971</u>
Total U. S. Department of Transportation			<u>1,092,549</u>
U.S. Department of Homeland Security			
FEMA- Federal Emergency Management Agency			
Assistance to Firefighters Grant	97.044	EMW-2004-FG-18558	120,837
Transportation Security Administration			
Law Enforcement Officer-Airport Security	N/A	HSTS01-04-A-LEF-033	<u>164,172</u>
Total U.S. Department of Homeland Security			<u>285,009</u>
U. S. Environmental Protection Agency			
Passed through the Arkansas Soil & Water Conservation Commission			
Lee Creek Watershed Water Quality Monitoring Grant	66.460	C - 999610312 Project 04 - 800	<u>21,378</u>
Total U. S. Environmental Protection Agency			<u>21,378</u>
Total Federal Awards			<u>2,801,074</u>

City of Fort Smith
Schedule of Expenditures of Federal and State Awards
Year Ended December 31, 2005
(Continued)

<u>Granting Agency/Grant Program</u>	<u>Grant Number</u>	<u>Expenditure</u>
State Awards		
Arkansas Department of Pollution Control and Ecology - Solid Waste Management and Recycling Grant Fund Program:		
Equipment, Education, Market Development and Administration	S1-00	97
Equipment, Education, Market Development and Administration	S01-02,2-02,50-02,51-02,52-02	22,06
Equipment, Education, Market Development and Administration	S00-03,Adm,02-03	9,31
Equipment, Education, Market Development and Administration	S01-04,02-04,04-04	<u>39,41</u>
Total Arkansas Department of Pollution Control and Ecology		<u>71,76</u>
Department of Arkansas Heritage:		
CLG Grant-Historic Preservation Program	CLG03-02	1,31
CLG Grant-Historic Preservation Program	CLG04-02	12,92
CLG Grant-Historic Preservation Program	CLG RETT 04-02	<u>1,62</u>
Total Arkansas Department of Heritage		<u>15,85</u>
Arkansas State Highway and Transportation Department		
Phoenix Avenue	50B 040223	1,761,89
Alcohol/Other Drug Countermeasures Program	J8-0408-1200	71,28
General Services Fund	N/A	76
Public Transit Trust Fund	N/A	<u>119,77</u>
Total Arkansas State Highway and Transportation Department		<u>1,953,73</u>
Arkansas Department of Emergency Management		
Public Assistance - Katrina	FEMA 3215-EM-AR	<u>249,19</u>
Total Arkansas Department of Emergency Management		<u>249,19</u>
Total State Awards		<u>2,290,54</u>
Total Federal and State Awards		<u>\$ 5,091,62</u>

City of Fort Smith, Arkansas
Notes to Schedule of Expenditures of Federal and State Awards
December 31, 2005

(1) **Scope of Audit Pursuant to OMB Circular A-133**

All federal financial award programs of the City of Fort Smith, Arkansas (the City), are included in the scope of the OMB Circular A-133 audit (the single audit). For purposes of this report, awards include those received from other agencies, the original source of which was a federal agency. The Schedule of Expenditures of Federal and State Awards does not include the Airport Commissions's federal and state financial award programs.

(2) **Organization and Accounting Policies**

The City is recipient of certain federal and state grant funds. The grant programs are administered by various departments within the City. The activities of these departments are monitored by the City staff to ensure compliance with the requirements of the underlying grants.

The accounting policies of the City conform to accounting principles generally accepted in the United States for local government units as prescribed by the Government Accounting Standards Board.

(3) **Basis of Accounting**

The grant accounts are maintained and the accompanying Schedule of Expenditures of Federal and State Awards has been prepared on the modified accrual basis. Grant revenues are recognized when eligibility requirements are met.

(4) **Relationship to Federal and State Financial Reports**

Amounts reported in the accompanying Schedule of Expenditures of Federal and State Awards may not agree with the amounts reported in the related federal and state financial reports filed with grantor agencies because of accruals which would be included in the next report filed with the agencies.

(5) **Relationship to Basic Financial Statements**

The following is a reconciliation of federal financial assistance revenue as reported in the City's basic financial statements to the Schedule of Expenditures of Federal and State Awards:

Total intergovernmental revenue	\$ 12,952,988
State turnback revenue	(7,999,021)
Local match	116,277
Enterprise fund grant	<u>21,378</u>
Federal and state financial assistance per accompanying schedule	<u>\$ 5,091,622</u>

(6) **Subrecipients**

Of the federal expenditures presented in the schedule, the City provided federal awards to subrecipients as follows:

Program Title	Federal CFDA Number	Amount Provided to Subrecipients
Community Development Block Grant	14.218	\$ 253,052
HOME Investment Partnership	14.239	393,188

City of Fort Smith, Arkansas
Schedule of Findings and Questioned Costs (Continued)
Year Ended December 31, 2005

Summary of Auditor's Results

1. The opinion(s) expressed in the independent accountants' report was (were):
 (Check each description that applies)
 Unqualified Qualified Adverse Disclaimed

2. The independent accountants' report on internal control over financial reporting described:
 Reportable condition(s) noted considered material weakness(es)? Yes No
 Reportable condition(s) noted that are not considered to be a material weakness? Yes No

3. Noncompliance considered material to the financial statements was disclosed by the audit? Yes No

4. The independent accountants' report on internal control over compliance with requirements applicable to major federal awards programs described:
 Reportable condition(s) noted considered material weakness(es)? Yes No
 Reportable condition(s) noted that are not considered to be a material weakness? Yes No

5. The opinion(s) expressed in the independent accountants' report on compliance with requirements applicable to major federal awards was (were):
 Unqualified Qualified Adverse Disclaimed

6. The audit disclosed findings required to be reported by OMB Circular A-133? Yes No

7. The City's major program was:

Cluster/Program	CFDA Number
Community Development Block Grants Cluster Twenty-Ninth Entitlement	14.218

City of Fort Smith, Arkansas
Schedule of Findings and Questioned Costs (Continued)
Year Ended December 31, 2005

8. The threshold used to distinguish between Type A and Type B programs as those terms are defined in OMB Circular A-133 was \$300,000.
9. The City qualified as a low-risk auditee as that term is defined in OMB Circular A-133? Yes No

City of Fort Smith, Arkansas
Schedule of Findings and Questioned Costs (Continued)
Year Ended December 31, 2005

Findings Required to be Reported by *Government Auditing Standards*

Reference Number	Finding	Questioned Costs
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No matters are reportable.

Findings Required to be Reported by OMB Circular A-133

Reference Number	Finding	Questioned Costs
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No matters are reportable.

City of Fort Smith, Arkansas
Summary Schedule of Prior Audit Findings
Year Ended December 31, 2005

Reference Number	Summary of Finding	Status
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No matters are reportable.

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